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IDEAS ON LIBERTY

How the Fed Fooled Farmers

Wilderness Cathedrals and the Public Good

Liberty and Property

Cities and the Wealth of Nations

MAY 1987

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IDEAS ON LIBERTY

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1987
VOL. 37
NO. 5

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IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
President of the Board: Robert D. Love
Vice-President of Operations: Robert G. Anderson

Senior Editors: Beth A. Hoffman, Brian Summers

Editorial Adviser: Paul L. Poirot
Book Review Editor: Edmund A. Opitz
Contributing Editors: Howard Baetjer Jr., Bettina Bien Greaves, Gregory F. Rehmke

Production: Laurel A. Mascola

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Bruce M. Evans, chairman; Thomas C. Stevens, vice-chairman; Joseph E. Coberly, Jr., vice-president; Don L. Foote, secretary; Lovett C. Peters, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $10.00 a year is required to cover direct mailing costs.

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The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

PERSPECTIVE

Unexpected Consequences

Government intervention inevitably makes conditions worse, the late Ludwig von Mises often explained, even from the viewpoint of a program's original backers. The current depressed state of U.S. shipping offers a dramatic example.

Congress passed the merchant marine law in 1886, and the Jones Act of 1920, to protect U.S. shipping. Yet from the point of view of the U.S. shipping industry, these laws have made conditions worse, not better.

The 1886 law forbade foreign ships from transporting people between two U.S. cities. The 1920 law required all ships engaged in U.S. coastal trade to be built in the United States and to sail under the U.S. flag. But the drafters of these laws could not anticipate future conditions. Ships are no longer a primary means of travel; the cost of building and manning U.S. ships has skyrocketed, especially because of rising U.S. labor costs; and U.S. coastal cities now include such popular tourist ports as Oahu, Hawaii, and Anchorage, Alaska.

Because of the high cost of construction in the U.S., foreign shipping now enjoys a substantial cost advantage. As a result, relatively few U.S. ships now engage in world trade. And by taking advantage of loopholes in the maritime laws, foreign ships now carry much of the lucrative U.S. tourist traffic to Alaska and Hawaii.

Foreign ships can carry passengers on a round-trip cruise from Los Angeles to Los Angeles, via Hawaii, where brief stops are allowed. Although foreign ships cannot pick up one-way passengers in Seattle who want to cruise to Alaska and fly back, they can pick them up a few miles away in Vancouver, British Columbia. Meanwhile, Seattle, Washington, which once flourished as a seaport, finds much of its port facilities lying idle, as the bulk of the Alaskan cruise business bypasses Seattle to sail from Canada.

Government legislation, intended to promote and encourage the U.S. shipping industry, has

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had unexpected consequences. It has not only led to the decline of the very industry it was supposed to help, but also to the encouragement of foreign competition.

In Marc Connelly's 1930 Pulitzer Prize winning play, "Green Pastures," God complains that every time he performs a miracle, he soon has to perform several others to solve the problems caused by the first one. Such has been the case with the "miracle" of maritime regulation. Government should stop subsidizing, regulating, and controlling shipping and shipbuilding and let consumers decide which ships and what shipping routes to support with their business.

—BBG

Rent Control

The battle lines over rent control seem to be clearly drawn. On one side stand the landlords; on the other side are the tenants. And the issue seems clear enough: Should powerful landlords be prevented from raising rents above reasonable levels? When viewed in these terms, rent control attracts many adherents.

But there is another way to look at the rent control issue, and a third party which is almost completely ignored. This third party is the prospective tenants effectively locked out by rent control. Controls prevent these people from bidding for apartments, thereby creating a housing shortage. These people have to wait for someone to vacate a controlled apartment, crowd into uncontrolled housing, or live in another community.

Thus, the real rent control issue is: Should outsiders be prevented from bidding for apartments?

Of course, when apartments are decontrolled, prospective tenants tend to bid up the rents of previously controlled units. But in so doing, they provide incentives for new construction. As time passes, this new construction relieves the housing shortage created by rent controls, and brings rents down to market-clearing levels. When rents are controlled by supply and demand, and not by political edicts, landlords have no more power than their ability to offer attractive apartments at reasonable rents in a competitive housing market.

It is difficult to identify the prospective tenants locked out by rent control. Thus, they have no organizations and no politicians eager to champion their cause. But they surely include many people who, frustrated by the housing shortages created by rent control, pursue careers in more hospitable parts of the country. These people will get by, and many of them will prosper, but the rent-controlled community will be poorer without them.

—BJS

Soviet Monopolies

"Government-owned services, though not adequately developed, were in a monopoly situation, dictating to consumers the kinds and range of services, their quality, cost, duration of fulfillment, and so forth."

—From an article in the Soviet newspaper Tass, *November 19, 1986, announcing a new Soviet law permitting citizens to engage in limited forms of private enterprise.*

Hungarian Candor

"In your opinion, should Hungary resemble more the capitalist countries or the socialist countries?"

"It should resemble more the capitalist countries."

"In the Hungarian economy, what changes are needed?"

"Fundamental."

"Agree or disagree: Only prices of luxury goods should be determined by market forces."

"Disagree."

"Do you want little differences in earnings or big gaps?"

"Big gaps."

"What layers of society get bigger-than-average earnings now?"

"Those with the biggest mouths."

—from an official Hungarian public opinion interview, as reported in The Wall Street Journal *(January 8, 1987).*

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How the Fed Fooled Farmers

by Jay Habegger

The crisis in agriculture has moved to the forefront of national attention. Scarcely a day passes without a story on the evening news about farm foreclosures or farmers pleading for financial relief. Occasionally the tale is even more dramatic and invokes a public response. One Colorado farmer, for instance, recently crashed his tractor through the front window of the bank which holds the mortgage on his farm. When the story appeared on television, sympathetic viewers began sending contributions to a fund established to provide for his legal defense. Clearly not all is well down on the farm.

Why are so many American farmers in financial trouble? Individuals who confine discussion to nonrecourse loans, marketing orders, or target pricing will uncover only part of the answer. Evidence indicates that government intervention in the money supply, popularly called monetary policy, is responsible for many of the financial woes of agriculture.

Farmers have long recognized the importance of monetary policy. Even in post-revolutionary America a large number of the debates in state legislatures concerned the proper role of government in monetary affairs.[1] Farming interests consistently supported "easy money"—inflation. Later, agrarian support for inflation manifested itself in several political movements. For instance, the Greenback party was largely supported by agrarian interests to promote the issue of paper currency.[2] The Greenbackers claimed that "easy money" would cure the farmer's problems. Although their assertions have proved false, agriculture's advocacy for inflation can be explained when one understands the business of farming.

Agriculture requires a large capital investment. Even a small farm needs a substantial investment in land and the machinery. Quality farm land can cost several thousand dollars an acre, and an average farm may run several hundred acres. A tractor alone can cost a farmer upwards of a hundred thousand dollars, and this doesn't include the implements for it to pull.

Individual farmers, however, rarely have the savings to finance even a small operation. Farmers typically obtain credit from commercial banks, savings and loans, and the U.S. government. Without credit, farmers are unable to purchase new land and machinery. In short, credit is an integral factor in agriculture.

As with any other factor of production, the terms and conditions under which credit is assumed and maintained play a major role in business decisions. The farmer is concerned not only with the terms of a loan, but the terms viewed against the current state of the economy and projected economic conditions. How the economy is expected to perform over the life of the loan may be even more important than the actual terms.

Agriculture's interest in monetary policy can now be explained. Since the farmer's livelihood is directly linked to the long-term performance of the economy, the factors which affect the economy, such as monetary policy, are of

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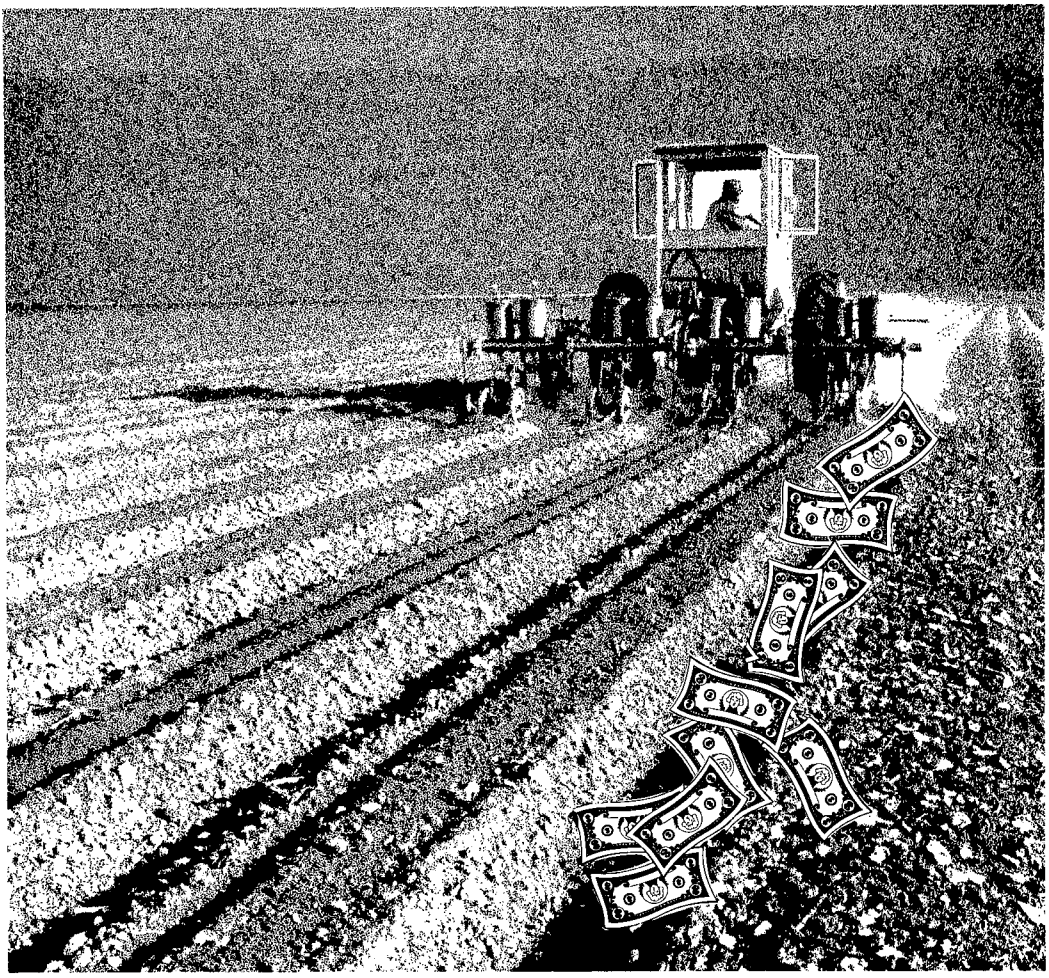

paramount importance. At the very least, the farmer would like to insure that long-term economic performance does not harm his position. Even more desirable is a situation in which monetary policy favors agricultural interests.

The Power of the Fed

Agriculture is not the only special interest group with a stake in monetary policy. Heavy industry, labor, and a bevy of other groups all would like a voice in monetary policy. The question then arises about how monetary policy is formed. Who wields this enormous power over the American economy? In the United States, responsibility for monetary policy falls chiefly on the Federal Reserve Board, commonly called the Fed. Through regulation of the quantity of money in circulation, the Fed hopes to achieve an optimal level of monetary growth and credit expansion.

There is little doubt about the Fed's ability to change the rate of monetary growth. Through various instruments, the Fed influences interest rates and other credit market conditions. What is open to question, however, is the Fed's ability to prescribe an *optimal* rate of monetary expansion—if such an *optimal* rate even exists.

Can the Fed know what the proper rate of expansion should be? The simple answer is no. The Fed would need total knowledge of all the factors that might affect the economy, which clearly no group of individuals can possess. Consequently, opinions on the optimal growth rate vary widely, depending on whose interest is at stake. What one group considers optimal

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growth another group may find detrimental. For example, farming interests generally favor rapid growth of the money supply. Labor, on the other hand, tends to find inflation undesirable. Thus, various special interest groups try to influence monetary policy to their benefit.

In practice monetary policy is determined by the Board of Governors of the Federal Reserve Board. Each of the seven governors is appointed by the President to a nonrenewable 14-year term. Often special interest groups try to influence monetary policy by exercising their leverage over appointments. Agriculture, for example, has used this tactic in the past. In 1922 agricultural interests persuaded President Warren G. Harding to appoint an "agriculturist" to the Board of Governors.[3]

Each member of the board is subject to political pressure from a variety of sources. In an election year, the administration may encourage the Fed to cause a mild inflation, thereby stimulating the economy and aiding incumbents. Congress and the administration may also influence the Fed to monetize the Federal debt, thus causing inflation in order to finance large government expenditures. If the inflation becomes a political burden, however, Congress or the President may call upon the Federal Reserve Board to slow monetary growth.

The effect of all these political influences is an unpredictable, myopic monetary policy. A change in any one of the factors which influence the Fed may cause a major shift in monetary policy. Each policy shift causes significant fluctuations in the economy. Thus, every time the Fed alters its policy, individuals in the economy must also alter their economic activity and long-range forecasts. They must adjust to each policy shift. It is the policy shifts and consequent readjustments that have caused many of the severe problems in American agriculture.

Throughout the late 1970s, the Fed pursued a policy of rapid money and credit expansion. The resulting inflation, which lasted several years, caused farmers to believe that inflation would continue. They made their investment decisions accordingly. Federal price supports, Federally subsidized credit,[4] low interest rates, coupled with the seemingly favorable investment climate caused by the inflation, prompted many farmers to bury themselves in a mountain of debt.

The inflation caused economic distortions. Since most nominal prices rose, nominal income also increased. Rising incomes and low real interest rates convinced farmers that they were in a better financial situation than they actually were. If, as many farmers expected, the inflation continued and their nominal incomes rose, their debt payments would become less of a burden. Thus, the expectation of a continuing inflation induced farmers into investments which they never would have undertaken in a period of stable money.

But no one can predict the political future. The farmers couldn't anticipate the appointment of Paul Volcker as Chairman of the Federal Reserve Board in 1979, and the mounting political pressure to slow inflation. Following Volcker's appointment, the Fed began an erratic shift in policy that was designed to reduce inflation.[5] While actual monetary growth varied from month to month, the overall result of the Fed's policy was to slow the growth in the money supply. As a consequence, inflation subsided. The economy began a painful period of adjustment which led to a recession.

Trapped

Farmers became victims of the recession. With monetary expansion slowing, money incomes stopped rising. Without rising incomes, many farmers faced severe cash flow problems. Their incomes became insufficient to service the massive debts they had accumulated during the inflation. The result, which we see reported on the evening news, is the foreclosures and bankruptcies of many small farmers. It should be emphasized that the readjustment problems are not restricted to agriculture, but affect every sector of the economy to some degree. The U.S. government essentially lured these farmers into a financial trap that was sprung by the Fed.

Eventually, many of these farmers will recover. Nothing, however, prevents the same cycle from repeating itself. As long as the Fed is allowed to cause long periods of inflation followed by radical and sudden policy shifts, farmers will be subjected to painful readjustments. Thus, any long-term solution to the ag-

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ricultural problem must put a stop to the Fed's erratic monetary policy.

Several solutions have been proposed. Although they have one element in common—eliminating the arbitrary factors and political influences in the Fed's decisions—they differ radically in approach.

One solution, advocated by Milton Friedman and the monetarists, proposes greater government control of the money supply in the form of a Constitutional amendment which would require the Fed to limit monetary growth to a certain level.[6] While this solution might enhance predictability of the Fed's actions, it faces the same knowledge problem that currently plagues the Fed. There is simply no way to know how much monetary growth will insure a given economic expansion at a given point in time. And, if the Constitutional amendment left loopholes for the monetary authorities to try to determine what the monetary growth should be, monetary policy probably would become just as chaotic as it is today.

Another proposed solution to the problems of erratic monetary policy is the institution of a completely free banking system. This would remove the money supply from government control. Such a system has an excellent historical precedent. During the first half of the nineteenth century, a successful free banking system existed in Scotland.[7] Competing private banks issued banknotes which were redeemable in specie and individuals had the right to use the currency of their choice.

The system possessed several natural checks on inflation. Since each banknote was imprinted with a statement insuring its redeemability, banks were required to keep substantial specie reserves. When a bank wanted to expand its note issue, it needed first to acquire more specie. If a bank inflated its currency without enlarging its reserves, the market ensured that it would suffer severe consequences. An increase in note issue caused more notes to be presented for redemption. If the bank had failed to expand its specie reserves, its existing reserves would be quickly depleted. If the bank continued the inflation for any length of time, bankruptcy would result. However, long before the bank went bankrupt, the depletion of reserves would force the officers of the bank to halt the inflation.

Perhaps an even more important virtue of free banking is that it depoliticizes the money supply. Political influences would be replaced with market forces. The supply of money would be regulated by the same market forces which currently regulate the supply of shoes and other commodities. Monetary stability would be achieved through freely acting individuals, as opposed to the Fed's attempt at monetary stability through central control. Thus, it would appear that free banking offers the best hope of an economy free from recessions and economic shocks.

The establishment of a free banking system faces many legislative barriers.[8] It requires the elimination of the Fed and the abolition of legal tender laws which require individuals to use a specific currency. Indeed, any law which specifies the currency of payment must be repealed. The largest barrier, however, may be the U.S. government itself. The government benefits substantially from the status quo. Inflation increases its revenues and lowers the real value of its debt.

Uncertainty introduced by the Fed's almost random policy causes severe financial distress in the farm community, and indeed the entire economy. According to Milton Friedman, the last few years have been "a striking example of the harm that monetary instability can produce." It is clear that a comprehensive solution to the problems of agriculture must include a curtailment of the Fed's ability to produce economic chaos. □

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Wilderness Cathedrals and the Public Good

by William C. Dennis

"In wildness is the preservation of the world."
—HENRY DAVID THOREAU

"The public interest" has become one of the cant phrases of the day. In a democratic society, almost by definition, proponents of a particular policy must claim that it promotes the public good and opponents must argue that it will harm the public weal. As the scope of government expands, the claims on behalf of the public interest grow ever more extravagant while the concept of the public interest becomes increasingly vague.

If the public interest is to advance, everyone must benefit and no one should bear disproportionate costs. The Founding Fathers believed that this idea of the public interest could be furthered only through a government of strictly limited powers because only a few measures in carefully defined areas could be expected to benefit the nation as a whole. Today we might call their version of the public interest a positive-sum game. Yet the power of the government has grown since the early days of the Republic to the point where public policy is characterized less by the public interest than it is by transfer activity. In a transfer society, public policy is dominated by efforts at using the power of government to transfer, or redistribute, wealth from some people to others. At best, transfer activity is a zero-sum game—the gains equal the losses. More likely, scarce resources are consumed in the bargaining over the transfer activity, and society is left poorer than before.[1]

One area where claims on behalf of the public interest have been particularly noteworthy has been the cause of wilderness preservation. Without exception, the proponents of the public protection of parks and wild land have maintained that their program was manifestly in the public interest. While most public policies have been subjected to close scrutiny in recent years, the public interest claims of the wilderness preservationists have met few challenges.[2]

Yet there are a number of problems with the argument on behalf of the public provision of wilderness protection. Wilderness protection yields major benefits for a few at the expense of the many. Whatever the general benefits of public wilderness protection, they are far outweighed by the private benefits. Public wilderness preservation, at least in part, is a transfer activity. Even if wilderness preservation is in the public interest, on net, the government probably has done more to destroy wilderness than to preserve it. Public action is an uncertain means to preserve wilderness and may well be counterproductive. Public means do not always produce public benefits. Finally, the proponents of wilderness protection disagree among themselves on such questions as the nature of

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This article is an expanded version of a presentation given at a conference sponsored by the Political Economy Research Center, Bozeman, Montana, and appears here by permission.

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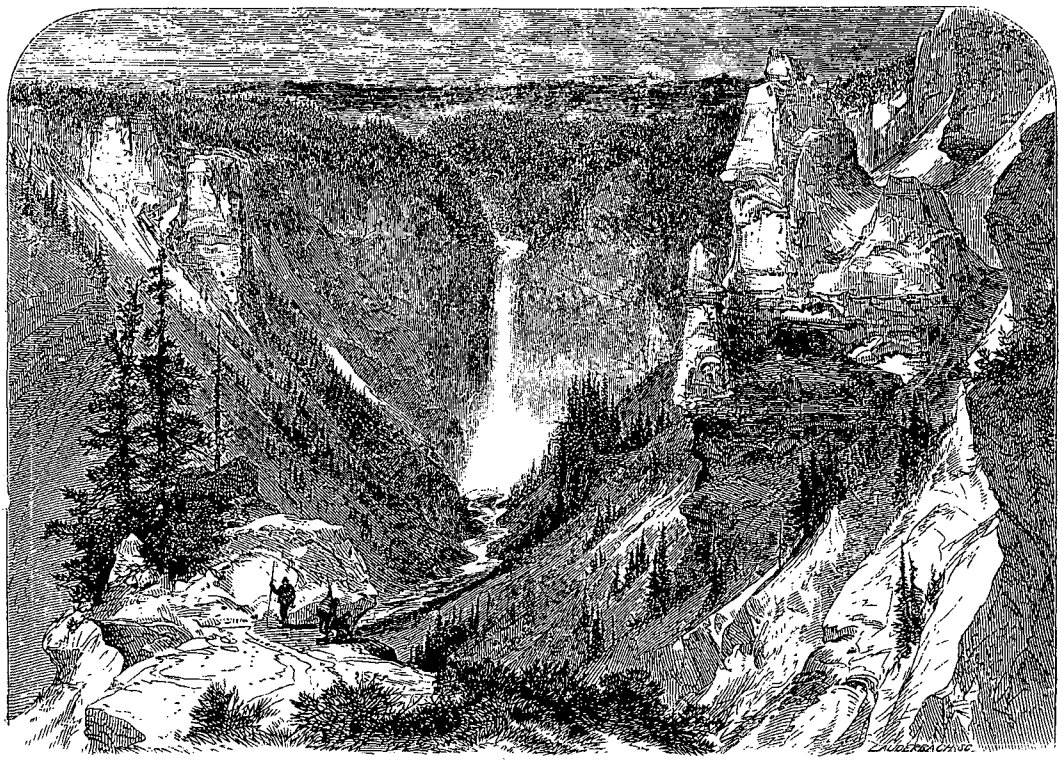

The Great Canyon and Lower Falls of the Yellowstone, 1871

wilderness, how best to manage wild lands, and how much preservation is desirable. Such disagreements make the promotion of the public interest through government protection of the wilderness even more unlikely.[3]

Indeed a brief look at the history of the public interest arguments on behalf of wilderness protection turns up what, from the perspective of today, can only be called some real embarrassments.[4] For instance, contact with the wilderness was thought to promote those masculine virtues necessary and appropriate for a young virile nation. While this view is commonly and correctly associated with Theodore Roosevelt, it was a typical position throughout the nineteenth century. For example, Washington Irving wrote: "... we send our youth abroad to grow luxurious and effeminate in Europe; it appears to me, that a previous tour on the prairies would be more likely to produce that manliness, simplicity, and self-dependence most in unison with our political institutions."[5]

The most popular masculine sport was hunting. Then, as now, hunters wanted wild lands to be managed for their benefit. But there was little appreciation for the balance of nature among nineteenth-century hunters. Hunters viewed wolves, mountain lions, grizzly bears, and coyotes as vermin which threatened the population of desired game animals, particularly deer. Even as late as 1920, Aldo Leopold, who would later help bring the ecological perspective to the attention of the nation, argued that the restoration of deer population to satisfactory levels required the eradication of every last wolf and lion.[6]

American wilderness demonstrated the purity of the American nation and people. Life in the wilderness invigorated the spirit and better prepared Americans for the challenges of civilization. On the other hand the destruction of the wilderness denoted the Europeanization of America and the general decline of American civilization. Toward the end of the century the masculine argument on behalf of wilderness protection became associated with Manifest Destiny, the Darwinian struggle, patriotism, the mild racism so characteristic of many of the progressives, and even the benefits of barbarism and the cleansing qualities of war.[7]

The progressives also brought to the wilderness argument their belief in scientific manage-

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ment and planned economic growth. Proper, knowledgeable, centralized management of natural resources was the only way a healthy, prosperous future could be assured. As Gifford Pinchot wrote, "Conservation stands for the same kind of practical commonsense management of this country by the people that every businessman stands for in handling of his own business."[8] Eventually this attitude led to a split in the wilderness movement, which is with us yet today, between those who saw the wilderness primarily as a resource storehouse for future development of the common good, and those who desired large quantities of wild land to be set aside and protected from economic exploitation.[9]

"These temple destroyers, devotees of ravaging commercialism, seem to have a perfect contempt for Nature, and instead of lifting their eyes to the God of the mountains, lift them to the Almighty Dollar."

—JOHN MUIR, 1912

But there has also been a good bit of commercialism of one sort or another in the wilderness movement throughout its history. The preservation of Yellowstone was partly the effort of the Northern Pacific Railroad which saw the possibilities of a tourist trade. Congress viewed Yellowstone largely as a collection of geysers, waterfalls, and other curiosities rather than as wild parkland. Railroads and other commercial enterprises contributed to the preservation of the Grand Canyon, Niagara Falls, Yosemite, Glacier Park, the White Mountains, and the Maine woods. Improvements in transportation brought people closer to the wilds and contributed to the popularity of the preservation movement. Certain tours became the "thing" to do for the leisured elite. Trips to Mount Marcy, Natural Bridge, or Crawford Notch were more daring, but just as acceptable as sojourns at Saratoga, Newport, or White Sulphur Springs. As late as the 1950s advocates of preservation gloried in the rising park attendance and commercial tourism made possible by the automobile and the Federal highway program. Growthmanship has not been limited to the for-profit sectors of the country.[10]

Paintings, panoramas, photographs, lecture tours, accounts of life in the woods, and famous explorations—these were signs of a popular interest in the wilderness in the nineteenth century. But to a surprising degree the impetus to preserve wild lands came from the intellectual elite of the eastern cities. Emerson, Thoreau, Irving, Greeley, Whittier, Bryant, Cooper, Cole, E. L. Godkin—men who believed it was their responsibility to elevate the taste and standards of a mediocre democracy and who were uncomfortable with the bustle and whirl of nineteenth-century economic expansion, were often the ones who first sought solace in at least a tentative contact with the wilds. Much of the nineteenth-century wilderness movement came not so much from a love of nature as it did from an antipathy to the city. The urban elite delighted in romantic pastoral poems, in genteel outdoor activity (such as beach walks, fishing trips, and picnics), in leisured travel, and in summer migration to fashionable watering places. When the parks and beaches and resorts near home became too crowded the wealthy patrons who had "pioneered" these retreats, like aristocratic "Daniel Boones," moved farther off so that they would not have to rub elbows with their social inferiors.[11] Some of the most venturesome of these travelers eventually got so far out that they met up with real wilderness at Mount Katahdin, or in the Adirondacks, or even along the Oregon Trail, as the young Francis Parkman did, out for a lark in 1846. When they did, not all of them liked what they found there. Thoreau's rather terrifying climb of Mount Katahdin served to remind him of the many benefits of civilized life. There were, of course, lovers of the wilderness of the modern-day stripe who actually knew the wilds from long personal experience—men like Alfred Jacob Miller, John Wesley Powell, Osborne Russell, John Muir, or William Henry Jackson, but in comparison to the East Coast elite whose contact with the wilds was rather remote, such figures were few and far between.

The nineteenth century produced other, more familiar arguments on behalf of wilderness protection: wilderness was an important source of aesthetic beauty, wilderness served as an antidote to the ill effects of the corrupting materi-

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"The explosion of American concern for conservation was rooted in shifting attitudes and values and, in view of its intensity and evangelical character, might be termed a gospel of ecology."

—RODERICK NASH
(from *The American Environment*)

alism of modern civilization, wilderness provided an escape to freedom from the cares of daily life. These views, and the masculine, romantic, commercial, utilitarian, planning, and aristocratic arguments for wilderness preservation which are discussed above, continue to be of historic interest, and serve to give us pause about present-day claims of furthering the public interest through the public provision of wilderness. But far more common than these arguments, and surprisingly modern in its approach, was the frankly theological argument that wilderness brought one closer to God and helped to restore the soul. For Americans, wilderness was to be the Temple and the Cathedral for ages to come:

> What are the temples which Roman robbers have reared, what are the towers in which feudal oppression has fortified itself, what are the blood-stained associations of the one, or the despotic superstitions of the other, to the deep forests which the eye of God has alone pervaded, and where Nature, in her unviolated sanctuary, has for ages laid her fruits and flowers on His altar!
>
> My God is in the wilderness . . . My church is the church of the forest.[12]

Now, it is one thing for an individual to be guided by his religious beliefs on decisions of public policy, but it is quite a different thing to demand that the state in its own best interests, actually provide both a church and a religious service. In a diverse democratic society, there are serious problems with providing religious goods through statist means. Yet the theological argument, or its modern equivalent, for wilderness protection, remains every bit as popular today as it was a hundred years ago. In his beautifully written and highly acclaimed, *Mountains Without Handrails, Reflections on the National Parks,* Joseph L. Sax, a professor of law at the University of Michigan Law School, is unabashedly moralistic in his plea for wilderness preservation. Wilderness advocates are secular prophets, says Sax, bringing to the people a much needed superior set of values. God may be missing from Sax's impassioned plea, but Sax is a preacher for the political establishment of a faith nonetheless. Let Sax speak for himself:[13]

> The preservationist is not an elitist who wants to exclude others, notwithstanding popular opinion to the contrary; *he is a moralist who wants to convert them.* He is concerned about what other people do in the parks not because he is unaware of the diversity of taste in the society but because he views certain kinds of activity as calculated to undermine the attitudes he believes the parks can, and *should* encourage. . . .
>
> The setting of the national park provides an opportunity for respite, contrast, contemplation, and *affirmation of values* for those who live most of their lives in the workaday world.
>
> *The preservationist is an elitist,* at least in one sense. He seeks to persuade the majority to be distrustful of their own instincts and inclinations, which he believes are reinforced by alienating work and the dictates of mass culture. To the social reformer his message is that he can help generate incentives that will lead toward reform of the workplace. To those who say "let's look at demand," he says that *people need to pay attention to what they ought to want as well as to what they now want.* To those who ask how anyone else can purport to know what another citizen should want, he responds that complacent acceptance of things as they are is not the hallmark of a democratic society.
>
> Right or wrong, persuasive or not, *his claim is that he knows something about what other people ought to want* and how they can go about getting it, and he should not back away from, or conceal, that claim. . . .
>
> The preservationists are really *moralists at heart,* and people are very much at the center of their concerns. They encourage people to

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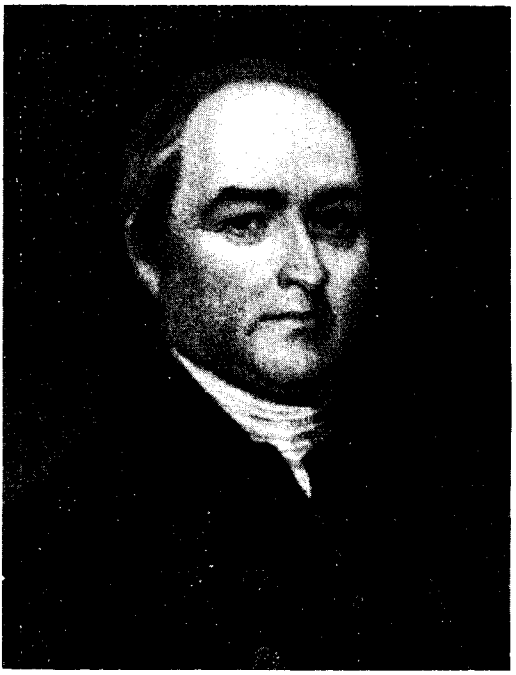
immerse themselves in natural settings and to behave there in certain ways, because *they believe such behavior is redeeming*. . . .

It is not enough to accept the preservationists simply as a minority, speaking for a minority, however impressive. For that reason *I have described them as secular prophets, preaching a message of secular salvation*. I have attempted to articulate their views as a public philosophy, rather than treating them merely as spokesmen for an avocation of nature appreciation, because the claims they make on government oblige them to bear the weightier burden. (Emphasis added)

What Professor Sax recommends is coercion on behalf of a good cause. Wilderness preservation, he believes, will redeem mankind from the evils of the modern world through an official policy of moral uplift. Americans will be won away from their passive existence. Mental health will improve. In short, wilderness will bring a new (secular?) salvation to mankind.

But when it comes to moral uplift, Sax will find that there are many denominations, each with its own version of salvation, each with its idea of what a cathedral should look like.[14] Fishermen (and Sax is one) know the moral value of casting a fly some early morning out onto the waters of a calm lake. Hunters and trappers conduct their slaughter in the name of the higher value of personal responsibility, self-sufficiency, camaraderie, and family unity. Wendell Berry calls for a restoration of the historic values of the small, independent farmer.[15] Popular culture touts the freedom of the cowboy or the trucker as being socially redeeming. Pick almost any special interest magazine off the newsstands, (I find *Sports Afield, Car and Driver,* and *Runner's World,* to be of interest because I do not share in their enthusiasms), and one will find claims of social virtue almost as extravagant as those of Joseph Sax (in whose enthusiasm I share).

Then we think back to the exaggerated claims of the nineteenth-century lovers of nature and we realize that little has changed since those days. A preacher is a preacher wherever he may be. One of the early nineteenth-century adventurers into the wilderness was himself a



Timothy Dwight

minister. Timothy Dwight, Congregational clergyman, President of Yale College from 1795 to 1817, left an account of his journeys in four massive volumes.[16] Dwight actually got out into the wilds and was one of the first New Englanders to record his admiration of the physical beauty of natural America. But, Dwight feared the wilderness as well. In contrast to Joseph Sax, he thought that extensive contact with the wilderness was morally debilitating. Men living in the wilds, away from home, church, and town become dissolute and antisocial. For Dwight the wilderness could never be a church; a good church required a settled town, an educated clergy, and regular worship within a community setting.[17]

Dwight, like Sax, however, believed in an established church at public expense with compulsory church attendance, only it was the Congregational Church, not the church of the wild wood that he supported. Dwight believed that Christianity was God's plan for mankind and that God demanded that His Church be supported by the civil authorities, because through church attendance some would be brought to salvation who would not otherwise obtain it. Of the many varieties of the Christian faith, the Congregational Church was the highest and most pure expression of God's will

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and should receive preferential treatment. But Dwight was not just a Congregational minister of the old school. He was a modernist, a rationalist, and a scientist who established the first chair of natural philosophy at Yale. He knew that his theological arguments would not appeal to everyone and he went on to bolster his argument on behalf of the establishment of religion with arguments from political economy as well.* The Church provided public benefits and, therefore, all should help pay for it. Church attendance promoted good morals and, with its appeals to conscience, reduced crime. The Church taught Christian charity so that people would live together in peace and harmony. It reduced social tensions and increased good will among men. A higher degree of social morality meant less public expense for police, punishment and rehabilitation, and court litigation. The Church, for Dwight, had what economists would call a favorable cost/benefit ratio. Without a strong public commitment to religion Dwight feared that vice, crime, and licentiousness would grow to the detriment of the society as a whole.

Timothy Dwight was probably correct about the social benefits of a well-ordered church. As long as he was alive, Connecticut remained true to its long-established policy of public support of religion. The year after Dwight's death in 1817, however, a contentious election brought to power a party committed to a complete severing of church and state. But was this dramatic change in Connecticut policy accompanied by rampant immorality and criminality, together with associated social costs, as Dwight feared? Not according to Lyman Beecher, Dwight's friend and protegé and Congregational minister at Litchfield. After disestablishment, no longer able to rely upon state support, the Congregational Church began an intensive effort to keep existing parishioners and to attract new members to the fold. At the same time, the dissenting sects stopped viewing the Congregationalists as the enemy and ceased wasting their scarce resources on political opposition to the establishment. Soon a wave of religious enthusiasms known as the Second Great Awakening swept over Connecticut. The voluntary, instead of compulsory support of religion, ended petty religious quarrels and brought about greater social cooperation and new religious concern.[18]

Perhaps there is a lesson to be learned here. The state is not a good means to promote either religious or secular salvation. Considering this brief history of the strange arguments made for the public provision of wilderness, should we not expect the preservationists to be more modest in their claims today?[19] Is it not at least plausible that the "disestablishment" of wilderness might bring with it many of the benefits that came to Connecticut with the disestablishment of religion?[20] Joseph Sax and his friends could promote wilderness preservation as one of the many good achievements of modern civilization and would no longer have to promote their position after the manner of true believers. The various sects of "preservationists" and "developers" would stop spending scarce resources on the unending and increasingly strident battle for the political control of the wilderness, but instead could cooperate in the discovery of new ways to provide wilderness

*Dwight's language is so similar to some of the arguments of modern day preservationists that it is worth quoting at length: "The legislature of every State is the proper superintendent of all its prudential concerns. It has not only a right, but is obliged by an authority, which it can neither oppose, nor question, to pursue every lawful, and expedient, measure for the promotion of the public welfare. To this great purpose Religion in every country is not only useful, but indispensable. But Religion cannot exist, and has never existed, for any length of time, without public worship. As every man ought, therefore, willingly to contribute to the support of whatever increases his own prosperity; he is by immoveable consequence obliged to support the religion, which by increasing the common prosperity, increases of course his own.

Should an advocate for the doctrine, which I oppose, demand proof, that Religion is indispensable to the welfare of a free country: this is my answer . . . Moral obligation has its sole ground in the character, and government of God. But, where God is not worshipped, his character will soon be disregarded; and the obligation, founded on it, unfelt, and forgotten. No duty, therefore, to individuals, or to the public, will be realized or performed. . . ."

"I am well aware, that in spite of this and any other reasoning; in spite of demonstration itself: there are men, who may, and in all probability will, say, that, however good and useful the public worship of God may be, they do not wish to avail themselves of its benefits; and owe, therefore, no contributions to its support. To these men I reply, that he, who has children, or who does not wish to send his children to school; and he who does not use the roads, and bridges, of his country, because he is either necessitated, or inclined, to stay at home; may on exactly the same ground, claim an exemption from supporting schools, roads, and bridges. To such an objector it is a sufficient answer, that these things enter into all the happiness which he enjoys; and that without them he, and his countrymen, would be hermits, and savages. Without Religion, man becomes in short time a beast of prey; and wastes the happiness of his fellow-men with as little remorse, as the wolf, or the tiger; and to a degree which leaves their ravages out of remembrance."

(Dwight, *Travels* IV, 403, 405. Also see, Theodore Dwight, Jr., *President Dwight's Decision of Questions Discussed by the Senior Class in Yale College in 1813 and 1814*, New York, 1833, "Dispute XII, December 8th 1813: Ought the Clergy to be Supported by Law?")

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through private means. We would come to see wilderness as a scarce good, worthy of ownership and stewardship as with other scarce goods. The public appreciation for the value of wilderness would grow accordingly.

Less wilderness in public hands, in the long run, might well lead to better wilderness preservation as well. At the end of his third edition of *Wilderness and the American Mind,* Roderick Nash writes: "It has occurred to others that the need for the wild is a transitory, frontier-related enthusiasm that Americans will outgrow . . . Changing ideas and values replaced the wilderness hatred with wilderness preservation, and ideas could change again."[22] If that day should come, would it not be better for the cause of preservation to have substantial tracts of wilderness in private hands where it could be protected from changes in public taste and public interest?

Finally, and most importantly, the disestablishment of the wilderness, as with the disestablishment of the church, would contribute to the expansion of liberty. Wilderness then would truly contribute to the support of those liberating values held in high esteem by the preservationist community—values, which it might well be in the public interest to further. □

1. For more on the public interest and the transfer society, see William C. Dennis, "The Founding Fathers and the Public Interest," unpublished lecture, delivered at Shawnee State College, Portsmouth, Ohio, April, 1976, and Terry L. Anderson and Peter J. Hill, *The Birth of A Transfer Society* (Hoover Institution Press: Stanford, California, 1980).

2. There is, however, a growing literature on this subject. Three good references are: Edwin G. Dolan, *Tanstaafl, The Economic Strategy for Environmental Crisis* (New York: Holt, Rinehart & Winston, 1971), Robert J. Smith, *Earth's Resources: Private Ownership vs. Public Waste* (Washington, D.C.: Libertarian Party, 1980); and John Baden and Richard Stroup, "Priceless Wilderness: A Paradigm Case of Rent Seeking" (paper prepared for a Liberty Fund Conference on, "The Political Economy of the Transfer Society," Montana State University, Bozeman, September, 1980). But also see the convenient bibliography in Stroup and Baden, *Natural Resources: Bureaucratic Myths and Environmental Management,* San Francisco, 1983. See also William R. Tucker, *Progress and Privilege: America in the Age of Environmentalism* (Garden City, NY, 1982).

3. These arguments are developed at length in William C. Dennis, "The Public and Private Interest in Wilderness Protection," (*The Cato Journal,* Vol. 1, No. 2, Fall 1981), pp. 373-390.

4. I do not want to be misunderstood. I value wilderness highly. During the last fifteen years, I have spent more than 600 days in wilderness or park settings. Many, indeed most, of the arguments on behalf of wilderness protection, both historical and current, are persuasive to me. They just do not establish convincingly, a sound basis for a public policy of wilderness protection. I confess, however, that most persons I talk to do not seem to object to providing me with a wilderness experience through the tax system even though they use little wilderness themselves. Perhaps they feel that the indirect benefits they gain from the preservation of wilderness fully compensates them for their expenditures on wilderness. But a modern society offers many moral and aesthetic goods without public support or subsidy.

5. Quoted in Roderick Nash, *Wilderness and the American Mind* (Yale University Press, New Haven and London, 1967), p. 73. Also, Nash, *Wilderness,* pp. 148-149; Arthur A. Ekirch, Jr., *Man and Nature in America* (University of Nebraska, Lincoln, 1973, org. pub. Columbia University Press, 1963), p. 65.

6. Susan L. Flader, *Thinking Like a Mountain: Aldo Leopold and The Evolution of an Ecological Attitude Toward Deer, Wolves and Forests.* (University of Nebraska: Lincoln, 1978, org. pub. University of Missouri Press, 1974), pp. 53-61. Alston Chase in *Playing God in Yellowstone: The Destruction of America's First National Park* (1986) shows how the National Park Service itself successfully eliminated wolves from Yellowstone.

7. Nash, *Wilderness,* 11, 102, 106, 145, 152-53; Ekirch, *Man and Nature,* pp. 33-34, 98-99.

8. Quoted in Ekirch, *Man and Nature,* p. 98. Also, Ekirch, *Man and Nature,* pp. 88-90, 97, 99; Hans Huth, *Nature and the American: Three Centuries of Changing Attitudes* (University of Nebraska, Lincoln, 1972, org. pub. University of California Press, 1957), pp. 186-187. Samuel P. Hays, *Conservation and The Gospel of Efficiency: The Progressive Conservation Movement, 1890-1920* (Harvard University Press, Cambridge, 1959), pp. 41-42.

9. Ekirch, *Man and Nature,* p. 88; Nash, *Wilderness,* pp. 161-181.

10. Nash, *Wilderness,* pp. 105, 112-113, 155; Huth, *Nature,* pp. 72, 155, 202; Hays, *Conservation,* p. 196.

11. Huth, *Nature,* chapters 4 and 7. Huth, p. 62, quotes the painter, Asher Durand, as worrying that the rural districts around New York City in the 1840s were being "invaded by roughs—the inevitable canker of public grounds, contiguous to our great cities. . . ." Some modern day preservationists, viewing Yosemite, say, know what Durand was talking about. But, then, what are public grounds for if not for the public?

12. Nash, *Wilderness,* pp. 11, 73, 157, 67, 71, 121, 157-159, 167; Ekirch, *Man and Nature,* pp. 52-53; Hays, *Conservation,* p. 145.

13. Joseph L. Sax, *Mountains Without Handrails, Reflections on the National Parks* (The University of Michigan Press: Ann Arbor, 1980), pp. 14, 42, 51, 59, 103-104.

14. Ernst R. Habicht, Jr., first put this idea in my mind.

15. Wendell Berry, *The Unsettling of America* (Sierra Club: San Francisco, 1977).

16. Timothy Dwight, *Travels In New England and New York* (New Haven, Connecticut, 1821-24, in four volumes).

17. The paragraphs on Dwight are based on William C. Dennis, *A Federalist Persuasion: The American Ideal of the Connecticut Federalists, 1795-1818* (unpub. Ph.D. dissertation, Yale University, 1971), Chapters 2 and 3.

18. Lyman Beecher, *Autobiography, Correspondence, etc.* (2 vols., New York, 1864-1865), I, p. 344. Charles Roy Keller, *The Second Great Awakening in Connecticut* (Yale University Press, New Haven, 1942), pp. 55-69. Keller argues that the revival was a spontaneous development and was not something artificially created by the Congregational clergy to counter the effects of disestablishment. Keller believes that most of the clergy were unconcerned with politics by 1818. Indeed, the presence of revival may have eased the path to disestablishment by showing the clergy they had nothing to fear.

19. I find support for this position in Julian L. Simon, *The Ultimate Resource* (Princeton University Press: Princeton, New Jersey, 1981), p. 145: "Conservationists perform an invaluable service when they alert us to dangers to our unique treasures, and when they remind us of the values of these treasures to ourselves and to coming generations. But when they move from this role to suggesting that pulp trees or deer should be conserved beyond what we are willing to pay to set aside the trees or deer's habitat, they are either expressing their own personal aesthetic tastes and religious values, or else they are talking misguided nonsense."

20. Or in Madison's famous words from *Federalist* #10: "In a free government the security for civil rights must be the same as that for religious rights. It consists in the one case in the multiplicity of interests, and in the other in the multiplicity of sects."

21. Roderick Nash, *Wilderness and the American Mind,* 3rd. ed. (New Haven and London: Yale University Press, 1982), pp. 387-388.

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Liberty and Property

by Joseph S. Fulda

Perhaps the best way to illumine the connection between the economics and philosophy of liberty is to uncover the relation between liberty and property.

There is no more authentically conservative idea than the rights of property. What is less understood is that there is no more authentically liberal idea either. The alliance between liberty and property is nowhere more celebrated than in John Locke's second treatise of government, *An Essay Concerning the True Original, Extent, and End of Civil Government,* and it is to the master that we turn for its exposition.

To Locke, property was a broad concept. Anything that one has a right to is his property, for rights are proprietary interests, no more, no less. Indeed Locke often interchanges "property" and "rights." Everything we have is thus a property: life, limb, health, reputation, and possessions. Thus broadly must be understood Locke's noble statement, oft cited but little understood, "Government has no other end but the preservation of property."[1] So he explains himself, to anyone who troubles to look.

It is "lives, liberties, and estates, which," Locke informs his readers, "I call by the general name, *property.*"[2] Earlier he had written, "Every man has a property in his own person. This nobody has any right to but himself. The labour of his body, and the work of his hands, we may say, are properly his."[3] Properly his —or proper to him—because man has "in himself the great foundation of property."[4] Again and again, this unifying idea—property, or rights—lends simplicity and beauty to this earliest exposition of limited government.

We have, for example, a proprietary interest in our children which though it gives us the exclusive right to rear them is neither unlimited nor permanent: we have created an equal with rights of his own. The moral basis of religion is much the same: "For men being all the workmanship of one omnipotent, and infinitely wise Maker . . . they are his property, whose workmanship they are. . . ."[5] Whether the relation between God and man is master-slave or father-child is the subject of many a theological discourse and an endless dialogue between Creator and created. Marriage is also a proprietary interest as it "consist chiefly in such a communion and right in one another's bodies. . . ."[6] The commitments of contract, founded on mutual considerations, are also proprietary interests, rights to be secured by the law of the land. Richard Baxter, an English divine contemporary with Locke, summed it up this way: "Every man is born with a propriety in his own members, and nature giveth him a propriety in his children, and his food and other just acquisitions of his industry. . . . And men's lives and liberties are the chief parts of their propriety."[7] Perhaps more than anything else, it is Locke's broad, underlying conception of property that makes his *magnum opus* cohere so gracefully.

It also illuminates the connection between liberty and property. Liberty, after all, refers to something coercive that isn't there. It is a condition of noninterference with one's properties, one's proprietary interests, one's rights: nonin-

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terference with one's person, family, worship, contracts, and possessions. That is liberty and it is of property. Jefferson's statement that governments were instituted to secure the rights of man is Locke's assertion that governments exist for the preservation of property recast in the language of a later time.

The Power to Tax

The preservation of attachments, of man to God, of family ties, of contractual commitments, of a man to his life, fortune, and honor is perhaps the essence of conservatism rightly understood. The closely allied classical liberal tradition is about freedom: the freedom to attach, the freedom not to attach, the freedom not to be interfered with in one's attachments. Government is ever a threat to such freedom and attachment, to liberty and property, for it has within its means the dread taxing power. If we understand property broadly as did Locke, then the power to tax—to take property—is readily seen to encompass all the multifarious interventions of the state in our lives. The power to tax is indeed the power to destroy.

Such an understanding of property and taxation gives the lie to those who incessantly call for "national service" and their fond belief that this would lower taxes. Of course, it would simply make the state's consumption of the energies of the citizenry more direct and more coercive, shifting the burden of taxation from "that property which men have in their . . . goods" to "that property which men have in their persons."[8] As George Gilder has written, the shift is regressive, "the Moloch of the closing circle": "The rates of taxation climb and the levels of capital decline, until the only remaining wealth beyond the reach of the regime is the very protein of human flesh, and that too is finally taxed, bound, and gagged, and brought to the colossal temple of the state —a final sacrifice of carnal revenue to feed the declining elite. This is the destination of all dictatorship. . . ."[9]

But what of that property which men have in their goods and in their land? How do rights in places and things preserve liberty? The answer lies more in the nature of human action than in the nature of places and things. Human action not only engages our persons; most action is performed on, with, or by the agency of property. And all human action takes place on the Good Earth, where by the grace of God man has erected his civilization. Thus is liberty of property and thus does the preservation of property rights secure liberty. The founders did not have available the comprehensive and beautiful vision of human action and economic freedom that we do, but this simple insight, that liberty is largely of property, never left them for a moment. That is why the polity they constructed so protected property and why their hope for freedom was realized here for so long, so well.

To come to a full appreciation of the role of personal property in human action, consider the dearth of activities that would remain open to us were all private (non-state-sanctioned) uses of personal property suddenly banned. Trade and enterprise would vanish, just as Marx, who worked for the abolition of private property, wished. Universities, broadcasters, and printers would have to close up shop, and everything else would soon follow. Indeed only three activities seem to be left to us: disorderly fist fighting (neither gloves, a whistle, nor a ring is allowed), yelling at large crowds (yelling because microphones are property, the crowd is gathered because radio, television, and other means of telecommunication involve property), and making love in the grass (beds being property). There was a time when this was largely what was meant by freedom; the reader may recall this as the Freedom of the Sixties. It is what is left of freedom when we are free to use our persons as we wish, but not our property. It is without question a caricature of freedom.

But even such skeletal personal freedom assumes the right to use the land as one wishes. Without such property rights, even these meager liberties are preserved only as long as the state pretermits. Land use regulations become ever more proscriptive and ever more prescriptive until one finds oneself utterly without choice of how to live on the land: the condition is known as serfdom and it is the logical extension of land use regulations and the actual unfortunate lot of millions.

When the territory of the free society—the many arenas of private activity—is not re-

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spected, the liberties of its denizens are woefully insecure. That is why state control of land, its use, and its distribution is so prominent a feature of socialist programs and why such miserable and blatant failures as collectivist agriculture still generate enthusiasm among the ruling elite. These leaders understand full well—as did their predecessors in other closed societies, feudal societies, for instance—that the private domains of a free society powerfully circumscribe the long arm and reach of the state. Private property is thus for them a thing to be greatly feared.

Whether the state draws the line around the object the man wishes to use or around the man who wishes to use the object is only a matter of perspective. What results is a contraction of choice, a limitation of the field of possibilities for human action, in short an abridgment of liberty.

Concern for the security of real property is not new to the tradition of liberty. Indeed it is one of the principal concerns of the *Magna Carta* and eventually made its way into our Bill of Rights as part of the third, fourth, and fifth amendments to the Federal constitution.

Let us move forward in time and examine the liberty-property connection as it is manifested today. Indeed today much abridgment of liberty comes under the guise of regulation of property: real and personal. Whether the state draws the line around the object the man wishes to use or around the man who wishes to use the object is only a matter of perspective. What results is a contraction of choice, a limitation of the field of possibilities for human action, in short an abridgment of liberty.

Regulations of farms and farm products inflate the costs of production and abridge the farmer's liberty to produce. Urban zoning ordinances abridge the associative freedoms and erect barriers to commerce, enterprise, and peaceful residency. Airwaves, too, are real property. When their use is circumscribed by "fairness," political access, public access, equal time, community service, and public interest requirements, it is the liberty of expression that is violated, in particular the liberty not to speak. When labeling requirements are placed on substances, it is the same freedom that is diminished along with the freedom of enterprise.

Productive human action is greatly encumbered by detailed regulations on capital goods and plant by the likes of OSHA and USDA, on transportation by the likes of DOT, the ICC, the FAA, and NHTSA, and on housing by HUD and countless state, county, and municipal agencies. The demands of these agencies are on people, not on machines, trucks, and houses. It is people who are directed to associate with such and such a person in the name of fairness, to transport only such and such an item in the name of fair competition, and to build machines in this or that way in the name of worker safety.

But it is precisely because control over people is being exerted through control of property that such measures can never meet their goals. Writes William E. Simon:

> The common feature of OSHA regs, EPA "zero discharge" crusades, and NHTSA efforts to improve traffic safety is that they seek to create a risk-free existence by manipulating objects. But most accidents and other health and safety hazards . . . result from human error or carelessness. The crusade to create a totally risk-free environment is therefore doomed to failure from the outset.[10]

Empirical evidence supporting this generality and demonstrating the incredible lack of cost-effectiveness in what is known as the "command and control" method of regulation has become increasingly acknowledged in recent years.[11]

The connection between liberty and private property can be further illumined by an examination of the connection between their polar opposites: totalitarianism and the abolition of private property. "The theory of the Communists may be summed up in the single sentence: Abolition

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of private property," wrote Marx.[12] Lenin was later to write: "The scientific concept of the dictatorship (of the proletariat) means nothing other than unlimited government unrestrained by any laws or any absolute rules and supporting itself by force."[13] The connection between the aim of the former and the reality of the latter is evinced by a consideration of Marx's central proposals: placing under state control the instruments of production (farms and factories), the means of association (transport and communications), and the sources of ideas (schools, universities, churches, printing presses and other media).

We Are What We Consume

Broadly considered, the old adage is quite right: we are what we consume. The foods we eat, clothing we wear, houses we dwell in, furnishings we decorate them with, appliances we use, haircuts we get, discussions we enter into, places we visit, books we read, pictures we watch, courses of study we embark on, ideas we adhere to, and the God we worship: these are all the things that make us what we are: they *are* our civilization.

Control over everything consumed, from agricultural produce and manufactured goods to the company of others and the ideas of the day, is thus the power to shape civilization. Marx instinctively reaches for the throat of the free society when he suggests state control of the means of production. "The means of production," after all, is a prosaic phrase. We are talking of nothing less than the source of supply, the means of satisfying human needs and wants. Granting the state power over this satisfaction does more than place every man in "terror of effective deprival . . . of his business and his livelihood,"[14] although it does that. It allows the state to define society.

The relation between Marxism and the more virulent Leninism thus has a simple, syllogistic structure: We are, broadly speaking, what we consume. In a planned economy, what is produced determines what is consumed. Therefore, control over what is produced determines the nature of our lives. In a market economy, in contrast, what we would consume is all that can be produced. Control over what is produced—and over what is consumed—is left in the hands of the common folk, you and me: that is the essence of a free society. □

1. John Locke, *Two Treatises of Government,* Peter Laslett, ed. (Cambridge: Cambridge University Press, 1967), II: 94.
2. *Ibid.*, II: 123.
3. *Ibid.*, II: 27.
4. *Ibid.*, II: 44.
5. *Ibid.*, II: 6.
6. *Ibid.*, II: 78.
7. Richard Baxter, *The Second Part of the Nonconformist's Plea for Peace,* pp. 54-55.
8. John Locke, *op. cit.*, II: 173
9. George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 258.
10. William E. Simon, *A Time for Action* (New York: Berkley Books, 1980), p. 89.
11. See, e.g., Donald Lambro, *Fat City: How Washington Wastes Your Taxes* (South Bend, Indiana: Regnery/Gateway, Inc., 1980).
12. Karl Marx and Friedrich Engels, *The Communist Manifesto,* Samuel Moore, trans. (New York: Penguin, 1967).
13. Lance Morrow, "What Workers Get Out of Communism," *Time* 116:11, September 15, 1980, p. 102.
14. Herbert Hoover, *The Challenge to Liberty* (New York: Charles Scribner's Sons, 1934), p. 82.

IDEAS ON LIBERTY

Property Rights

If personal freedom is the basic institution of the free society, then the principles of private property and freedom of contract must be the vital instruments of the free society; for personal freedom cannot even be conceived outside the environment provided by property and contract rights.

—SYLVESTER PETRO
The Labor Policy of the Free Society

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The Private Property System and the Decent Society

by Tibor R. Machan

The Western liberal system of values has been suffering from lack of adequate moral support. Ever since the time of Adam Smith, liberal capitalism has tended to be defended on grounds that the pursuit of private profit will benefit the public interest. After all, Smith's great book is called *The Wealth of Nations*, not *The Wealth of Individuals*. Yet what capitalism and liberalism stress is that each individual ought to be protected in his or her liberty to act as he or she chooses. This is a far broader claim than what is actually supported by even Smith's capitalist economic system.

Even more recent arguments against statism do not fully support the capitalist system of individual liberty and the practical legal principles that sustain it, namely, the right to private property. There are essentially three famous arguments against state planning of socio-economic systems.

First, there is an argument associated with the great Austrian economist, Ludwig von Mises, which holds that it is impossible to allocate resources rationally in planned economic systems. The reason is that such systems lack the information base provided by the price system, since such a system must rest on free trade and private ownership of the items being traded. But this argument assumes that there is something extremely important about allocating resources efficiently. Statists most often have different goals. Even socialists in our time have given up claiming that socialism produces better than capitalism, but argue only that capitalism is so cruel and heartless that its productive capacity does not justify sticking to it beyond a certain limited historical period. If they are right, and other values are more important and can be better preserved under socialism, Mises' famous argument, repeated often by others (e.g., F. A. Hayek), will not suffice to defeat statism.

Second, there is the argument advanced by Kenneth J. Arrow, Stanford University's Nobel Prize winning economist, that in a society which respects democracy and lets everyone express his or her preferences for what should be public policy, the results often will be logically contradictory. Letting everyone participate in public policy decisions, which so-called democratic socialists advocate, just leads to the impossibility of rational public policy guidance. And this seems to be clearly enough demonstrated in today's numerous welfare states which are kinds of democratic socialisms. The pressure groups exerting influence on the state make it impossible for the state to have a rational, consistent public policy in its domestic or international affairs. Yet the argument only proves that democratic socialism is impossible; it leaves open the possibility that dictatorships could be rational solutions. Indeed, Lenin already realized the problem of trying to have a combination of socialism and democracy, so he revised the Marxian ideal and instituted outright despotism in the Soviet Union.

Third, it is argued by Professor Garrett

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Hardin of the University of California—who is reviving an argument Aristotle advanced against Plato's defense of partial communism in the ideal society—that common ownership of resources must lead to resource depletion. He calls this the "tragedy of the commons." We can see how this happens when public spheres are used in relatively open societies. Beaches, the air mass, lakes, rivers, parks, roads, and so forth all tend to be cared for less well than private backyards, homes, company headquarters, and so on. In all these public realms we find something going terribly wrong without knowing just where to place the blame. That's what makes for a tragedy! Yet Professor Hardin and those who agree with him simply propose the alternatives of greater state control, which invites statism. And we have seen above that statism ultimately reduces to some form of dictatorship.

So what argument can be given against this by Western liberals who feel that the rights, including property rights, of the individual should be defended? Why is it sensible to choose the Western liberal system and to work to extend its principles even further by demanding greater and greater liberty for the individual?

A Moral Defense

Ultimately, any political-economic-social system needs a moral defense. One reason statists always seem to be at an argumentative advantage is that they know this and use it effectively. Marxists and welfare statists never tire of denouncing capitalism and freedom for all kinds of alleged moral failings. Capitalism is supposed to foster greed, heartlessness, cultural decline, lack of safety and health measures for workers, inadequate social security, etc. Never mind that not a single socialist system produces as much of the good things in society as the near-capitalist U.S. and other Western systems have and still do. The moral rhetoric never seems to suffer from this. The Soviets get a great deal of advantage from always talking about the few poor and neglected in capitalist societies, even while they oppress an entire generation of Russians and others in their sphere of power. The West still hasn't found an effective way to respond, even when any honest person can see that Western practices have preserved human values far more than anything the Soviet and Marxist regimes have managed to accomplish.

To remedy this it is necessary to understand that human beings are first and foremost moral agents. They have freedom to control their own actions and are responsible for how well or badly they exercise this control. This implies that any decent society must make room for free choice for individuals. Anything else—art, sports, science, military might, the preservation of ancient buildings, or whatnot must take second place in comparison to this vital function of a society, namely, to make the moral agency of individual human beings a real, practical possibility. It is not the business of a legal system to make people good, to get them to behave well, to engineer their perfection. Rather, it is to provide them room in the company of others to take up the challenge of their moral nature! And this challenge is most accessible to them in a legal system in which there exists strict adherence to the principle of private property rights.

The reason is not difficult to see. Human beings live in the natural world, surrounded with the items of nature—mostly this earth, but soon beyond. When they are in each other's company, they must have a clear idea of what is theirs, what is not theirs, so that they can make intelligent use of this earth's resources in leading their lives. The principle of the right to private property is the moral prerequisite for making this coordinated pursuit of human excellence possible.

If I don't know what is mine in how I lead my life, I am unable to make a responsible judgment. Whose backyard may I let my children play in? Mine, not yours, for that would make it impossible for you to judge about your priorities, your moral objectives, intelligently, rationally. As the argument about the tragedy of the commons suggests—although in a limited way—when everything is everyone's and no one has a determinate sphere of personal jurisdiction, utter confusion and tragedy result.

The ultimate result of collectivization is dictatorial statism, which denies the moral nature of individual human beings. Very often in the

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pursuit of some particular value, people will be willing to sacrifice the most important prerequisite for the pursuit of values—the principle of private property rights. Yet they are perpetrating the most grievous social evil through doing so. They are making it impossible for human beings in society to be morally responsible.

Since my points above are very general in nature, let me make clear that when I speak of the principle of the right to private property, I speak of a right to obtain, keep, and dispose of all sorts of valued items, not just land or material goods. Poems, novels, musical arrangements, computer programs, architectural plans, chemical formulas invented by scientists and so forth all qualify as property. When people voluntarily pool their resources and together pursue some common goal, then, of course, they must take responsibility for what they have done and their moral agency is preserved. When people own shares in truly private corporations and then either hold on to them or sell them, here again their moral role in what they do is not difficult to determine. So the principle of private property can give rise to all sorts of complex institutional relations. What is crucial is that the role of the individual never be lost. And this is just what that principle makes possible.

Those who vaguely perceive that the West is right and Marxism is wrong should realize that their best argument is a moral one. It is the dignity of the human individual, the moral nature of persons, that requires their kind of system, whatever else also speaks in favor of it. □

IDEAS ON LIBERTY

An Instrument of Freedom

We have almost forgotten that there is a right of property which "is before and higher than any constitutional sanction." We talk about such things as freedom of speech, freedom of the press, freedom of religion, and freedom from false arrest, without giving much attention to the foundation upon which all these freedoms rest. We have forgotten that these are but the symbols, the ornaments, and the outward manifestations of a solid structure without which none of them could exist. We have become so interested in the cake's icing that we have ignored the cake. We have become victimized by the often repeated but absolutely false assertion that there is a conflict between property rights and human rights. The truth is that private ownership of property is the greatest instrument of freedom ever designed and it is sheer folly to speak of granting a man freedom while withholding that instrument from him.

As we move from one age to another there is but one fundamental change in the concept of private property. The rate of the change as well as the direction of the change may shift from time to time. But the question is always one of deciding what incidents of ownership rest in the individual and what incidents are claimed by the state. If human freedom is to be preserved, that question must be faced squarely.

—BERTEL M. SPARKS

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Laissez Faire as a Development Policy

by John Semmens

The majority of the people in the world live in poverty. Fatalistic philosophy and pessimistic disposition induce many to accept this situation as inevitable. Others, observing the prosperity of the minority, are inspired to anger and envy. Fortunately, the prosperity of the minority also serves as evidence that something other than poverty is possible for humankind.

Knowing that poverty is not inevitable still leaves us with the question of how the condition is to be overcome or ameliorated. In the eagerness to speedily conquer the ills of poverty, much of the development economics literature has emphasized approaches calling for government planning, direction, and control of the economies of developing nations. The impetus behind this approach is the idea that the market left to itself cannot produce growth as fast or as well as a planned or directed economy. Unplanned markets rely upon atomistic decision-making by independent actors in the economic environment. There is no assurance that any particular type or quantity of industrialization will take place.

In contrast, it is argued, a planned economy can aim at specific objectives of development. Target industries can be developed and nurtured. Educated and trained experts can guide the economy onto planned paths that might, or might not, have been taken by an uncontrolled economy. The experts, informed by experience and observation of what has worked elsewhere should be able to avoid many of the costs of an unguided, trial-and-*error*, profit-and-*loss* market system. Thus, the planners conclude, economic growth should be forced into a higher pace.

While planned development may sound good in theory, the reality is quite a bit different. The government experts in control of Third World nations' economic policies are neither willing nor able to chart a better course than the unplanned market. Government attempts to direct economic development are little more than plausible sounding theory. An especially pessimistic view of the role of government intervention in economic development was expressed by Mancur Olson in *The Rise and Decline of Nations*. On the one hand, he perceived that it would require ". . . an enormous amount of stupid policies . . . to prevent economic development . . ." On the other hand, he observed that " . . .growth-retarding regimes, policies, and institutions are the rule rather than the exception . . ."

The problem with government control of the economy is one of devotion to socialist dogma. The key elements of this dogma include (1) suppressing or supplanting the market with government price and allocation schemes, (2) a reliance on government manipulation of the economy that routinely ignores individual incentives, (3) interference with free commerce via tariffs, quotas, or subsidies, and (4) an emphasis on redistribution of income. Many developing countries were formerly subjected to colonial status by various European nations.

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The socialist regimes that have arisen in the wake of decolonization are often reflective of government controls employed by colonial powers. That less developed countries have not thrown off the yoke of interventionist policies is probably due to a combination of the traditional tribal tendency to authoritarian political structure and the advice of development economists who believe that the laws of economics don't apply in the Third World.

The contrast between approaches to economic development could not be more stark. The advocates of a strong government role in directing economic development frequently write and speak as if there is no alternative to government intervention. It seems to be assumed that the market hasn't worked or cannot work or that the mere demonstration of imperfection in the market is sufficient to justify intervention by government. Little consideration seems to be given to the prospect that government imperfections may be worse than those of the market.

The First Development Economist

It is interesting that in all of the many articles on development economics listed in the *Journal of Economic Literature* only one in the last decade explicitly mentions Adam Smith. Even at that, the article questions the relevance of Smith's work to development economics. Granted, the analogy between a developing Western world of the eighteenth century and the less developed countries of today is not a perfect match. However, Adam Smith was concerned precisely with the fundamental issue facing less developed countries: how to achieve prosperity. After all, Smith's main treatise was *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith's objective was to elaborate on how wealth could be obtained.

How a nation is to obtain wealth is the crucial issue in development economics. Wealth must be produced by the efforts and investments of human action. However, not all effort and investment are guaranteed to produce wealth. The waste of time and money is a possible outcome of any effort or investment. Some undertakings yield losses. These diminish the wealth of the nation. Undertakings that yield profits increase the wealth of the nation. Reducing the occasions of loss and multiplying the occasions of profit are the essence of development economics.

The prevailing economic policy in the eighteenth century was mercantilism. This policy was oriented toward promoting national wealth by extensive government intervention. There were regulations, exclusive monopoly franchises, trade barriers and manipulations of all sorts designed to guide commerce and industry into paths deemed favorable by the government. The government controls may have resulted in high profits for favored firms, but did they really increase the wealth of the nation?

Like the socialistic development economists of today, mercantilists perceived that the nation could be guided to superior economic performance via the wisdom and expertise of knowledgeable experts and statesmen. Smith, in contrast, perceived that the statesman was also a politician subject to influence by special interests to the detriment of the economy as a whole. As Smith saw it, establishing barriers to free human action enabled the few to profit at the expense of the many. This could not be the true path to a wealthier nation. Prosperity could not be built upon the deprivation and exploitation of the many, no matter how much gold was earned by state franchised monopolies.

Ironically, many who today profess an abiding concern for the well-being of the masses end up asking that the government use its powers of coercion for the benefit of the powerless masses. The improbability of this outcome should be readily apparent. The powerful are apt to control or influence the government already. Granting the government more power in the economic sphere and urging that this power be used to control the economy is unlikely to dismantle the privileges of existing elites or their political successors. Adam Smith was acutely aware of this difficulty. His solution, unlike the misguided notions of modern radicals, was not to merely transfer coercive governmental power to a new "right-thinking" elite, but to urge the diminution of government economic intervention. This would allow individuals the freedom to pursue their own welfare. Freedom would allow the economy to as-

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sume its natural course—which is to grow and prosper.

The Key to the Wealth of Nations

Economic growth was the key to the wealth of nations and the prosperity of the masses of people. Individuals didn't need to struggle over the distribution of a fixed amount of wealth. More could be created. Rather than the desperate squabbling over redistribution that breeds envy and expropriation, the human condition can be one of cooperation for mutual benefit. If government can be restrained, the market can channel the human proclivity for acquisitiveness into a process of serving the needs of others. In the market economy, free of government interference, the only path to individual riches is through service to consumers. Thus, individual greed is made to fulfill human need by the "invisible hand."

So, Adam Smith did provide a model for promoting economic growth and development. The role of the government was to be confined to that of protecting the individual's right to freely pursue his own interest. Pursuit of this self-interest would lead the individual to specialize and cooperate with other economic actors. This specialization and cooperation would permit greater productivity. The greater productivity would broaden markets and lead to even more specialization and cooperation. The result would be an ever-expanding wealth for the nation.

Smith's laissez-faire model for economic development provided an effective rationale for the liberal political economies of the nineteenth century. This model appears to have been a better predictor and explainer of economic growth in the ensuing period than the theories of some of Smith's famous successors (i.e.: Malthus, Ricardo, and Marx). However, is Smith's model still relevant for less developed countries today? Even if we question the fit of Smith's model to contemporary development problems, the issue is whether the ideas advanced by the first development economist, imperfect though they may be, are better than alternative approaches. There is much to suggest that Smith's ideas are better.

Government vs. Market: The Evidence

Adam Smith's model for economic growth was a key guiding influence for nineteenth-century economic policy. Policy in Britain upheld the security of property rights over class privilege. This meant that contract rather than status determined an individual's position and fate in the economy. This is the crucial distinction between a liberal capitalist society and a more traditional social structure. Inevitably, the replacement of status by contract "disrupts" the static equilibrium of the society. Unconstrained individuals desert their traditionally assigned roles and create new places for themselves. In the process, old ways of doing things may be made infeasible, even for those who would wish to maintain them.

It wasn't so much that the 1776 publication of *The Wealth of Nations* immediately let loose a flood of reform legislation. Undoing some of the regulatory restrictions left over from the mercantilist period took decades. However, a key feature of the capitalist economy is its dynamic nature. Without being prevented from doing so, individuals will tend to adopt easier ways of accomplishing objectives. This leads to increasing efficiency, productivity, and wealth creation. As long as the political regime does not raise new barriers in anticipation of new industries and new methods, the dynamism of the market will surge past obsolete government regulations by innovating around them. This is precisely what transpired in the industrial revolution of the nineteenth century. New industries and methods fell outside the scope of many existing regulatory constraints.

The political support of capitalism in the industrial revolution was basically passive in nature. This is not to say that there were no public works programs or no assistance through subsidies or tariffs. These types of government action were relatively insignificant, as well as contrary to the guiding principles of laissez-faire capitalism. Low taxes and the shrinking relevance of obsolete trade barriers and regulations were government's major contributions to economic growth.

Comprehensive government planning, direction, or control did not play a major role in the

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development of any of today's most highly advanced Western nations. In fact, the more closely a nation's policies approximated the laissez-faire model promulgated by Smith, the more rapidly its economy grew. The overall success of the market approach to economic development has been overwhelming. No other approaches have even come close to matching, much less exceeding, the results. (See Rosenberg and Birdzell: *How the West Grew Rich.*) Today, less developed countries have not only Smith's basic model, but the demonstration of specific examples of economic development experienced in the West. Consequently, some of the false starts and unsuccessful investments undertaken in the past can be avoided by nations just beginning to industrialize today. So, entering the development process later should be a significant advantage.

Unfortunately, only a few developing nations have made the most of this late-start advantage. For the most part, the economic policies adopted by the majority of less developed countries can be characterized as disastrous. Rather than benefiting from the demonstrated utility of Smith's laissez-faire model, all too many less developed countries insist on imposing mercantile-like heavy government intervention on the economy. Seeing that modern economies are industrialized, developing nation leaders pursue ritualistic imitation. A prime victim of the attempt to modernize via ritualistic imitation is the agricultural sector. Inspired perhaps by Marx's denigration of "rural idiocy," many less developed countries suppress farm prices in order to provide cheap food for urban workers. The idea is that low food prices will permit lower wages and make industrialization more financially feasible. The predictable result, of course, is the simultaneous suppression of agricultural output. In terms of resource availability, it has been estimated that the world's farmers could feed 40 billion people. (See Rydenfelt: *A Pattern For Failure: Socialist Economies in Crisis.*) That millions starve is a reflection of bad economic policies, not inadequate means.

A favorite, and sad to say frequently recommended, policy of less developed countries is the establishment of inefficient, capital-intensive, highly subsidized, and protected industries. Like the mercantilists of the eighteenth century, many modern development economists seem to imagine that sheltered monopoly franchises will make nations develop an industrial base. This approach is just as senseless today as it was in Smith's time.

Establishing protected industries causes the nation to consume capital rather than build an industrial base. By producing a resource that it could have bought more cheaply, a firm or nation diverts scarce capital from more productive uses. Of course, many endorse protective policies as a temporary expedient, a sort of investment in the future. In the market, businesses have been known to sustain short-term losses on investments intended to produce long-term gains. The fact that private firms decline to establish the types of firms that require protection, unless protection is assured, is convincing evidence that the supposed long-term gains are sufficiently remote or uncertain to discourage these uses of resources. It should not be surprising, then, to discover that "temporary" protection becomes permanent, and that few "infant" industries ever grow to self-supporting maturity.

The long-term effect of government intervention on the fortunes of less developed countries is clearly negative. There is no sound theoretical support for government enhancing growth through planning, directing, and controlling the economy. Statistics also bear out the theoretical case against government control. Unprotected economies consistently perform better than protected ones. Government intervention consistently and significantly reduces a country's rate of economic growth. The price distortions caused by heavy government intervention can more than halve the potential growth rate of a developing nation. A study for the World Bank in 1983 found that countries with heavy governmental controls grew at an annual rate of about 3 per cent (on average). This is less than half the annual 7 per cent average growth rate for economies with a low incidence of government interference in the market.

As Adam Smith predicted, market-oriented economies grow faster. The so-called "gang of four" (Singapore, Hong Kong, Taiwan, and South Korea) have engineered what many label

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High-tech industrial development in Taiwan. Taiwan, Singapore, Hong Kong, and South Korea have all experienced significant economic growth rates since 1960. Rapid growth in Taiwan and South Korea appeared only after U.S. aid declined.

"economic miracles" in spurring their nations into high growth paths. The performances of these economies are not due to any miraculous event, unless, of course, one views sensible refrain from interference on the part of their governments as miraculous.

The 1960 to 1980 annual combined growth rates for these countries exceeded 7 per cent. This compares favorably with the low income country average of 2.9 per cent, the middle income country average of 3.7 per cent and the oil-producing country average of 6.2 per cent. In terms of current levels of well-being we find that Taiwan with a per capita Gross Domestic Product of $2160 is substantially better off than the People's Republic of China with a GDP of $300/capita (figures are for 1981). South Korea with a GDP/capita of $1700 is more well off than the Democratic People's Republic of Korea with a GDP/capita of $1000.

While these data do not conclusively prove that a freer market is the cause of improved economic results, they lend important support to the premise that a freer market can make a substantial difference. Critics of the market approach to economic development cite U.S. foreign aid to Taiwan and South Korea as a possible alternative explanation for the growth in these countries. However, rapid growth in these countries appeared only after U.S. aid declined. (See Melvyn Krauss: *Development Without Aid.*)

Why the Market Works Better

Supplied with both the theory and the practical demonstration of the superiority of a laissez-faire model for economic development, the tragedy is that the adoption of market approaches has not been more widespread. The seductive allure of using government power to force a faster pace of growth now dominates most economic development policies. Waiting for the market to produce growth seems so passive. However, the attempt to jolt an economy into more rapid growth by government intervention has more often electrocuted than electrified less developed countries.

It is not the announced intentions of development policies that are defective, but the institu-

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tion through which they are to be implemented. Government is an institution designed to apply force. This makes it suited to performing functions like national defense and law enforcement. Government is not well suited to the task of making a profit. Yet, making a profit—generating a surplus of value over cost—is essential if real economic growth is to occur. Adam Smith recognized this truth and advised against an active governmental role in the economy.

The key problem with looking to an active government to promote development is that it serves to politicize economic decision-making. The same force that can be used to deter aggressors or punish criminals can also be used to seize and redistribute resources. Profit-maximizing actors in the society may perceive that it is harder to produce resources than to use the government to seize them. Considerable effort and investment will be diverted toward influencing government to grant monopoly franchises, provide subsidies, outlaw competitors, and so on. So, not only do we observe the distorting inefficiencies of the interventions, but the additional diversion of resources toward political lobbying. This attempt to obtain resources through government coercion and its policy outputs act as a drag on the productive capacity of the economy. The result is retarded development.

Rather than promoting an active government and the struggle over who will seize whose wealth, development policy could achieve better results by seeking governmental passivity in order to permit an active private economy to create wealth. After all, wealth creation is a subjective, individualized process. The goal is to maximize value. However, value is a subjective concept. Only individuals are in position to know what is valuable to them. Left free to pursue value, people are more likely to achieve it than if they are channeled toward what some government expert believes will benefit the society. Smith recognized this in urging that individuals be left to make their own economic decisions.

People will tend to be more energetic and more enthusiastic when carrying out plans of their own choosing than when responding to the plans others seek to impose upon them. A laissez-faire development policy will allow a maximum of individual plans and actions. This market-based approach can unleash what may be the most scarce resource of all: entrepreneurship. Developing an economy entails risk. Not all plans can succeed. Government planners can afford to devote huge sums of a nation's scarce resources to money-losing ventures. Private entrepreneurs cannot. Bad decision-makers in the private sector will lose their capital. Bad decision-makers in government lose someone else's capital. A policy framework that allows private sector entrepreneurs to experience the rewards and penalties of their decision-making will generate a better set of decisions than a policy framework that suppresses or supplants this market process.

The market economy involves a dispersion of power that facilitates optimal growth. When political power plays an excessively large role in the economy, entrenched elites and vested interests will be positioned to oppose the transformation of society that will inevitably occur with economic growth. Whether the entrenched position is one favoring traditional culture, well-connected elites, or an ideology, the victims are still the masses of people denied the opportunity to better themselves. Constructing a laissez-faire model for political economy that would grant the masses of people the opportunity to better their economic condition was Adam Smith's ingenious contribution to world economic development. □

IDEAS ON LIBERTY

Francis E. Mahaffy

Only when the state is restricted to the administration of justice, and economic creativity thus freed from arbitrary restraints, will conditions exist for making possible a lasting improvement in the welfare of the more miserable peoples of the world.

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Black Marx

by Edward Theberton

If the people of Mozambique could eat slogans, they would be fat. Unfortunately, they require food, and so they are thin; for it is in the provision of food that the Mozambican government appears to be experiencing difficulties.

Since independence, 11 years ago, the Mozambican economy has contracted by at least a half, while the population has increased by a third. Of course, there are reasons, or excuses. The exodus of 200,000 Portuguese (surely predictable to any but a Marxist-Leninist) left the country completely without skilled manpower; the South Africans (again predictably) rerouted much of their rail traffic and cut back on Mozambican employment in the mines; they supported the armed dissidents who have brought chaos to the countryside; and even the weather has been unkind with drought, flood and cyclone.

And yet—and yet the main characteristics of the Mozambican economy are easily recognizable to anyone who has travelled to other African countries which have espoused socialism or dirigisme as a doctrine and practice. There is the same shortage of consumer goods; the same black market in foreign currency and almost everything else; the same wheeling and dealing in the simplest transactions; the same surliness and contempt for the public of anyone supposedly providing a service; the same dilapidation; the same disregard of public property; even the street names are depressingly familiar—Avenida Sekou Touré, Avenida Kwame Nkrumah, Avenida Julius Nyerere. One might suppose that the highest goal to which a politician could aspire was the utter destruction of his economy. In Mozambique, these characteristics have been developed to the *n*th degree.

Maputo is a surreal city, even when the lights are working. There are uncompleted tower blocks, untouched since the day the Portuguese left. Much of the city could have been used unchanged as a film set by Luis Buñuel. The shops remain open by decree, but without anything to sell. There is a large department store, John Orr & Co., which looks as though it has been struck by a special kind of neutron bomb that destroys merchandise. With mile on mile of empty shelving, the only goods on sale are a few old Portuguese army badges and old British knitting patterns dating from before the decimalization of the currency. The attendants stand guard over empty glass cases, day after day, year after year; that is how socialism solves the problem of unemployment.

The city used to have a Mediterranean café life, and the cafés are still there. So are the waiters, in whitish jackets, and there are even customers, though nothing to eat or drink, not even water. Occasionally, one comes across a notice in the window: *Há sumo,* we have juice, a disgusting sweet pink liquid that people drink only out of boredom. Every café's allocation of food and drink is diverted immediately on to the capacious black market.

Procuring food and other household items is

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Mozambique is almost twice the size of California, with a population of nearly 14,000,000. Its literacy rate is 15 per cent.

Mozambique was discovered in 1498 by Vasco da Gama. The Portuguese colonized the area in the early 1500s and maintained control over Mozambique for 470 years.

Samora Moses Machel, a self-proclaimed Marxist, headed the National Front for the Liberation of Mozambique (FRELIMO) in its ten-year struggle for independence from Portugal and became the first president of the People's Republic of Mozambique in 1975. He was killed in an airplane crash in October of 1986.

no easy matter. Visitors who stay at Maputo's luxury hotel, the Polana (soon, to be run by Tiny Rowland's Lonrho, an economic entity nearly twice the size of Mozambique, despite its 13 million people and 300,000 square miles), eat a four-course luncheon and a four-course dinner, or they eat nothing. Residents of the city, on the other hand, are allotted certain basic commodities on ration: two kilos of rice, two kilos of maize flour, one of fish, one of sugar, half a liter of oil (sometimes) per month. In Maputo, the last time soap was available on ration was seven months ago, in November.

People with foreign currency—for the most part expatriate whites—can shop at the *Loja Franca,* where they pay for imported goods in dollars or rand (everything about South Africa being unacceptable except the money). The sight of expatriates emerging from the mysterious air-conditioned shop—the windows are blanked out—laden with goods like milk and soap powder that are now only dim memories for most of the population, has done nothing to improve race relations.

Generally, people have to resort to the black market, known locally as *candonga*. A single bar of rough soap on *candonga* costs three weeks of the minimum wage. A medium fish costs £5 $100 at the official exchange rate, a small bottle of tomato sauce $9, one coconut $4. (However, the black market exchange rate is now 35 times the official rate, 1,400 *meticais* to the dollar instead of 40.) Not surprisingly, much of the economy runs on barter: if you want your telephone repaired, you pay in cigarettes or toothpaste, not money.

Crime and Punishment

It must not be imagined that in these difficult times the FRELIMO party has gone soft or liberal on crime, the causes of which, as Marxist-Leninists, they understand so well in capitalist societies. *Noticias,* the Maputo daily newspaper, reported on 10 April that in Cabo Delgado province three men had been sentenced to 30 lashes each of the whip (known popularly as *o chamboco,* the sjambok) for having stolen between them ten eggs, some bananas and 15 coconuts. Of course, *o chamboco* is not the inhuman punishment it was in former times; a doctor, when available, decides whether the criminal is to take his punishment whole, or in divided doses. Cases have been known where the punishment has, owing to the frailty of the criminal and revolutionary ardor of the People's Tribunal that sentenced him, continued for nearly a year.

Meanwhile, the government minister who presides over this revolutionary flogging, Sergio Vieira, publishes lyrical poetry in praise of the people whom he now has often to have

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flogged. (In Mozambique, all poetry written, or at least published, seems to be by FRELIMO ministers.) In a poem dedicated to his "Portuguese friends who have not understood in 50 years the meaning of independence," the flogger-in-chief writes:

> A flower, tired,
> discards its petals in the river
> and strangers
> will ask:
> why do flowers die?
> Poets and those on their knees will smile
> and they will drink the perfumed water of the river.

As for Samora Machel, who is now *Marechal* (Marshal), and is wearing increasing quantities of gold braid, that last resort of the bankrupt dictator, on his ever more elaborate uniforms, and keeps a yacht with a crew of 50, taking the entire Mozambican navy with him when he goes on an outing, *he* says flogging is necessary because otherwise the people would have to feed criminals in jail, and that would be unfair. Lesser but more forthright officials have admitted that conditions are now so desperate that if people thought they could get two meals a day by committing a crime, the streets would be empty and the jails full within a week.

It is surely ironic that a government that prides itself on its guerrilla origins should now find itself in effective possession of far less of the national territory than the Portuguese at the time of their withdrawal. It controls only an archipelago of cities and towns, and a corridor along the Beira to Zimbabwe road, the latter only thanks to the 8,000 to 10,000 Zimbabwean soldiers who guard it at a cost (to Zimbabwe) of half a million dollars a day. Even the cities have been infiltrated by the National Resistance Movement (MNR). A beach in Maputo frequented by Soviet advisors was mined in February and three people lost their legs. A car bomb recently exploded in Maputo, injuring 50. In Beira, the second largest city, a sabotaged electricity supply is now regarded as the norm. Everyone is indoors by six in the evening.

The government insists that the MNR are just armed bandits (*bandidos armados*). There is some justification for this view. They do not set up an administration in "liberated" zones, so far as anyone knows. Their program is vague, and consists of multi-party democracy, at least until they win an election, and economic liberalization. They frequently act with terrible brutality. One doctor I met, who has spent the best part of a decade digging bullets out of babies ("they can't run away"), and who has no sympathy to waste for FRELIMO, says he would support anyone fighting the government, but not the MNR. The bus on which I travelled from Swaziland to Maputo had not long before been intercepted by the MNR: two people had been savagely stabbed to death, five shot dead, and 20 injured. The bus is never attacked on the way from Mozambique to Swaziland, only on the return journey, when the guerrillas can combine the business of robbing (the passengers bring bread and onions) with the pleasure of killing. This random brutality, however effective as a means of destabilization, is surely not a good augury for a future alternative government.

But a movement, even one created by Rhodesians and then nurtured by South Africans, that can operate from Maputo province in the south to Cabo Delgado in the north, 1,200 miles away, rendering the whole country impassable; that operates anti-aircraft guns captured from FRELIMO in Gorongosa; that has toppled more than 500 pylons from the Cabora Bassa dam, and that publishes an ironically titled newsletter, *A Luta Continua* ("The Struggle continues"—FRELIMO's most famous slogan), in Lisbon, cannot be merely one of bandits. It is now doubtful whether the South Africans, even if they wished it, could put an end to the MNR. If it were any other than a communist government they were fighting, enthusiasts in Europe would long since have been explaining how such a movement could not possibly continue without considerable support from among the people.

One thing seems certain: the government is not going to defeat the MNR militarily. Their conscript army is disorganized and demoralized. Within it, corruption is such that when new uniforms were imported into Mozambique, the MNR were wearing them before the FRELIMO army. One conscript to whom I spoke told me that no boots were issued to him

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and that when his shoes wore out he had to march barefoot. Sometimes he was not fed for two or three days in succession, and when he complained that tea was doled out in tots as though it were whisky or rum he was dragged naked across stony ground and then ordered to be whipped. Only a doctor's intervention prevented the punishment from being carried out. Ammunition, he said, frequently runs out halfway through an operation, the officers having sold the rest to the enemy. One morning in Beira I heard machine-gun fire: a FRELIMO soldier—maddened by hunger, so the rumor went— suddenly loosed off at some civilians. It says something of his marksmanship that he hit only one lady in the arm; but it helped explain why the population now makes little distinction between the opposed forces.

The FRELIMO soldiers who man the roadblocks on the road from Beira to Zimbabwe are, quite literally, pathetic. They huddle, cold and wet and poorly clad, in makeshift lean-tos of thatch. They seem half-doped, by boredom, drugs or hunger, and react with snail-like slowness to passers-by. They do not ask for identity documents, but cigarettes. Their only sign of life is when they are given a couple, and then they display a truly child-like pleasure, actually dancing for joy. It is not easy to imagine such a force scaring off hardened bands of saboteurs and throat-cutters.

And so Mozambique seems destined for endless chaos and misery. Increasing numbers of Mozambicans flee to Zimbabwe, Swaziland and even South Africa as refugees. There are the inevitable rumors of talks between the government and the MNR, but even if, as seems unlikely, an agreement could be cobbled together, it could not last. One side would have to swallow the other. Negotiation would, in any case, tear FRELIMO, already reduced to a tiny incestuous clique, apart. FRELIMO are too fond of their own power to allow that to happen.

After more than a week in Beira, a city that has not seen a tomato for months, one realizes the vital importance to human existence of small pleasures, of frivolity. Showings of Vietnamese films depicting utterly selfless and heroic peasants, slogans inviting vigilance at all times, do not compensate for the lack of light, water and bedclothes in one's hotel (once four star, according to the plaque still in the entrance), for the absence of anything for breakfast, for the dilapidation of filth beyond the capacity of the most scatologically-inclined to imagine. It disgusted even a Tanzanian, and I can't say fairer than that.

I asked a Zimbabwean in Beira whether it was safe to travel on the road to Zimbabwe. "Put it like this," he said. "You'll be unlucky if you're shot." After a week in Beira, I was not so sure. □

In Future Issues . . .

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Fighting Communism with Free Trade and Open Immigration

by Frank W. Bubb

In the ongoing debates over protectionism versus free trade and restrictive versus liberal immigration policy, those advocating greater freedom have argued primarily on the grounds of economic benefit to Americans. Milton Friedman has argued cogently that Americans would benefit from eliminating tariffs and import quotas, even if other governments do not reciprocate.[1] Julian Simon has made the case that immigration produces largely unrecognized economic gains for the native population.[2] And George Gilder, with his unique eloquence, has argued passionately that both imports and immigrants have helped fuel America's recent economic growth.[3]

Such arguments have clearly had an impact. If there is one proposition that elicits near-unanimous assent from academic economists, it is that free trade is more efficient than protectionism. And, after decades during which this nation of immigrants viewed immigration as distinctly unpleasant, the idea of open borders is once again starting to become a living issue. One measure of the progress of open border advocates is the February 1986 report of the President's Council of Economic Advisers, which reviewed the findings of several recent studies and concluded that, on balance, immigration benefits native Americans.[4] Another measure is the appearance in several mass-circulation magazines of realistic portrayals of recent immigrants' hard work, entrepreneurial drive, and devotion to American ideals.[5]

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Obviously, these ideas have not yet permeated our political culture. While mass opinion always lags behind informed opinion, the lag in this case may partially result from the narrow economic focus of the advocates of freer trade and immigration policies. Economic arguments directed to the self-interest of one's audience are clearly vital, but such arguments tend to be difficult for many people to follow and may not, by themselves, provide strong motivation for supporting greater freedom.

This suggests that advocates of freedom should broaden their attack by advancing additional arguments that complement the economic analysis already being offered. *Put succinctly, both open immigration and free trade could be powerful "weapons" in America's worldwide fight against communism, substituting in whole or part for unpopular and costly foreign aid and guerrilla warfare programs. By opening its borders to people and goods from the Third World, America would act as a magnet, drawing the people of the Third World away from the false promises of communism and giving impetus to an emerging worldwide free market economy.*

Why, one might ask, do I juxtapose open immigration and free trade? How are these two ideas related? As discussed in some detail below, both would have similar effects on economic freedom and attitudes toward communism in the Third World. But more fundamentally, both are aspects of the belief that all people everywhere have inalienable rights, and that the right to property is an *individual* right, not a *group* right.

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Free trade recognizes the right to engage in voluntary transactions in goods and services across international boundaries; open immigration recognizes the right to move across international borders in a series of voluntary transactions. If a person born in Guadalajara or Port-au-Prince buys an airline ticket to Philadelphia, rents an apartment and finds a job, he has violated no one's rights. Hidden beneath the opposing view is the premise that the current inhabitants of each nation collectively own it, so that individual decisions to buy goods from abroad or to deal with foreigners on one's own property are subject to permission from the collective.

(Needless to say, whether immigrants should be entitled to become U.S. citizens, vote, or receive welfare benefits are entirely different questions. Clearly, immigrants have no moral entitlement to welfare benefits.)

Thus, dismantling U.S. government barriers against trade and immigration would *directly* increase the freedom of the people involved—Americans and foreigners who wish to engage in transactions across borders or face-to-face in the United States. But this article's primary purpose is to explain the *indirect* means by which such measures would increase freedom in other countries.

In his new book *How NATO Weakens the West,* economist Melvyn Krauss observes that the principle of comparative advantage applies to competition among nations: "Just because a given strategy works for one person, or nation, does not mean that it will work for another. Different nations have different traditions, institutions, and cultures that make them more or less suited to different types of activities."[6]

Krauss correctly observes that the American strategy for fighting communism in the Third World has been largely an imitation of Soviet strategy: foreign aid designed primarily to buy the allegiance of local rulers and surrogate warfare using local guerrillas (and, one might add, government propaganda directed at Third World audiences). According to Krauss, America's comparative advantage lies in a different strategy: "The marketplace is this country's strongest institution, and the United States must learn to use it to help the poorer countries of the world develop a vested interest in the capitalistic system. Once capitalism spreads, communism will contain itself."[7]

Unfortunately, from this breathtaking insight Krauss brings forth a pea-shooter of a policy: bilateral elimination of trade barriers with Caribbean nations. If Krauss' insight is correct, then America's comparative advantage in the struggle against communism can be maximized by unilaterally eliminating all barriers to both trade and immigration. The following discussion will compare these two policies against the alternate policies of foreign aid, surrogate warfare, government propaganda, and taking no affirmative steps against communism.

In making such comparisons, two caveats are in order:

(1) Free trade and open immigration cannot be viewed as substitutes for U.S.-backed guerrilla warfare in countries like Afghanistan, Cambodia, Nicaragua, and Angola. Clearly, such nations are "too far gone" for the development of market institutions to serve as a barrier to communism. At best, free trade and open immigration can help prevent other countries from following the same path.

(2) The U.S. government's current policies allow the illusion of "targeting." If a country —say, Egypt or Iran—is viewed as strategically significant, it may be given more aid. Free trade and open immigration, on the other hand, would take considerably more time to product results, and the country-by-country results would be inherently unpredictable. If our leaders were to opt for these liberalizing policies, they would be admitting that they cannot "fine tune" geopolitics any more than their intervention can "fine tune" the economy. They would be saying that such policies are more likely than current policies to win friends for America and for capitalism, but that *we cannot predict who these friends will be.*

The Pro-Freedom Effects of Open Immigration

Open U.S. borders would allow people in the Third World to get a truer picture of the United States and how a semi-capitalist system works. America's most formidable obstacle in the battle for the hearts and minds of the Third World is an often-virulent anti-Americanism

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and anti-capitalism. America is seen as a rich bully unholding the legacy of colonialism, a system of government-granted privileges for the rich and powerful. Third World inhabitants have almost no understanding of the practical workings of a market economy.

Against such entrenched attitudes, continually reinforced by the anti-American propaganda emanating from many Third World governments, U.S. government propaganda is likely to lack credibility. By contrast, Third World residents are more likely to believe what they hear from friends and relatives who emigrate to the United States.

What would they hear? At a minimum, that Americans are not devils and that America is not such a bad place after all. More likely, they would also hear accounts of how a semi-free society which they define as "capitalist" operates.

Advocates of the free market have always labored at a disadvantage. Unlike interventionists, who can simplistically assert that government can "make" certain results happen, free marketeers are often asked to explain exactly how a market system would solve certain problems. Since the actions of free individuals are inherently unpredictable, market advocates are usually reduced to theorizing about how things *might* work if people were given the proper incentives. For the great majority of people, who have difficulty envisioning hypothetical alternatives, real life examples of market-based solutions are far more compelling.

Imagine the effect on American attitudes if some of our friends and relatives were to emigrate to a fully free society—one without welfare, antitrust laws, government roads, or the Post Office. What if Americans could hear first hand that the absence of welfare does not cause starvation, that the absence of antitrust laws has not handed the economy over to monopolists, and that private individuals have figured out how to provide roads and deliver letters?

The same principle applies to Third World emigration to the United States. By comparison to the Third World's government-stultified economies, the U.S. offers a cornucopia of real-life examples of problem-solving by private individuals.

Finally, and even more important than the transmission of facts, immigrants would convey a feeling, a sense of life, to their friends and relatives at home. Time and again, immigrants have luxuriated in their relative freedom, their greater sense of control over their own destinies. To the masses who do not view freedom as one of life's possibilities, the immigrants' message could be powerful indeed. Through immigrants, the supply of freedom in America could raise the demand for freedom in the Third World.

By attracting the self-reliant and industrious from the Third World, America would give Third World governments the incentive to liberalize their economies. An article in *Forbes* magazine on the rapid growth of the computer software industry in India pinpoints the reason India has become more accommodating to U.S. firms seeking to set up operations there: "The new hospitality is of a piece with the low-key pragmatism of the country's young prime minister, Rajiv Gandhi. India wants to keep more of its brightest graduates at home, rather than seeing them emigrate to the U.S. and elsewhere. Software development can help keep them at home and gainfully employed."[8]

Software developers in India are not the only people who view the United States as an alternative. It is no accident that America is the preferred destination of a large number of the world's brightest scientists, engineers, and artists. Nor is it an accident that, as the President's Council of Economic Advisers noted, "many immigrants are entrepreneurs."[9] Leaving familiar surroundings to leap into the unknown is fundamentally an entrepreneurial act. People with the vision and self-reliance to migrate are more likely than most to become entrepreneurs in their new land.

By limiting immigration, the U.S. government is reducing options available to competent and entrepreneurial people all across the Third World. It is allowing Third World governments to exploit such people with relative impunity in the name of egalitarianism; they often have nowhere else to go. Giving such people the choice of coming to the U.S. would make it more costly for their governments to continue to re-

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strict their freedom. Third World rulers—whether or not their statist ideology changes—would find themselves compelled to enhance opportunity, to place a more realistic value on competence.

But, it might be objected, wouldn't an open immigration policy bleed Third World countries of their most competent people, the ones who would be most likely to push for reform if they were forced to stay put?

This question misunderstands the politics of Third World countries, most of which are one-party systems run by tiny, self-aggrandizing elites. It is unrealistic to expect competent, entrepreneurial-minded young people to throw their lives into political action to alter such a system; they are more likely to end up rotting in a jail cell than changing the system.

On a deeper level, this question is based on the zero-sum premise that humanity's supply of competence is limited. In fact, there is no limit to the development of competence when people are left free to deal with reality. The market process is a discovery process. It gives people the incentive to learn about and adjust to a constantly changing reality because it allows them to capture the benefits—and bear the burdens—of their own actions. By contrast, socialism thwarts the discovery process both by direct prohibitions and by allowing people to pass onto others the consequences of their actions.

We need not worry that an open immigration policy would deprive the Third World of its competent people. If open immigration is effective in persuading Third World governments to liberalize, vast numbers of people who would have lived their lives in stagnation and oppression could rise up to become competent, productive members of their societies.

The Pro-Freedom Effects of Free Trade

Free trade would increase people-to-people contact. International trade is not just a matter of shipping goods from one place to another. It requires ongoing personal contact on a large scale—to understand the preferences of customers in the recipient country, to establish and maintain distribution networks, and so forth. Exports from one country to another require a cooperative effort among people in both countries.

Such contacts are qualitatively different from the sort of contacts needed to grant foreign aid or train local military or intelligence organizations. Regardless of his personal qualities, the aid official or military adviser or Peace Corps volunteer plays a role that engenders resentment. He comes as the representative of a "superior" culture to "help" an "inferior" one. Too often, the government representative remains painfully ignorant of the local culture because he has little *personal* incentive to understand it.

The trader's role at least allows the possibility of a non-resentful response. The trader pays a compliment to the people he deals with by expecting to profit from their relationship. The trader has a personal incentive to learn about the local culture and to cultivate a relationship of trust with those in it; if he doesn't, he has no deal.

Free trade, like open immigration, would foster the people-to-people contacts needed to give the Third World a truer picture of America and how a semi-capitalist system operates. As Frank Chodorov once wrote: "It is not only that trading in itself necessitates some understanding of the customs of the people one trades with, but that the cargoes have a way of arousing curiosity as to their source, and ships laden with goods are followed with others carrying explorers of ideas; the open port is a magnet for the curious. So, the tendency of trade is to break down the narrowness of provincialism, to liquidate the mistrust of ignorance."[10]

If we want American ideals to become part of the Third World, we must let its people and goods become part of our world.

Free trade would give Third World governments the incentive to liberalize their economies. As Krauss explains, foreign aid and lowering U.S. trade barriers have very different effects on the economic policies adopted by other governments: "Consider a candidate for foreign aid that is experiencing economic difficulties because of faulty domestic economic policies. If the aid is not given, the difficulties

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may eventually lead to a policy reversal. The problem can, and often does, correct itself. But rendering economic assistance to the troubled country removes the incentives for domestic policy reform and perpetuates the status quo. In effect, the continuation of the bad economic policies becomes dependent upon the foreign aid: so long as foreign aid is maintained, bad economic policies persist."[11]

One obvious example of this effect is Israel. According to Krauss, "A country that spends almost 50 percent of its public budget on defense cannot afford the elaborate welfare state Israel has been able to finance because of the economic aid it receives from the United States. Instead of making Israel strong, U.S. open-ended economic aid has made Israel into the 'Sweden of the Mediterranean.' "[12]

Two other examples, which are more instructive because they illustrate the opposite effects of foreign aid and open U.S. markets, are South Korea and Taiwan. Krauss shows that the conventional argument that U.S. economic aid served as a springboard for these two countries' growth "not only is incorrect but is the reverse of what actually happened."

U.S. economic aid to Taiwan through the 1950s helped finance heavy public sector investment that was creating a socialist state. In addition, U.S. aid helped sustain protectionist policies. The discontinuance of U.S. aid forced both governments to adopt radically different economic policies in order to generate foreign exchange. ". . . foreign and domestic private investment [in Taiwan and South Korea] did not take off until the governments of these countries changed their policy orientation from government-led growth and reliance on foreign aid to more emphasis on private sector growth." "Korean per capita GNP, for example, grew at an annual average rate of 1.9 percent during this period, compared with figures three times that magnitude after both aid and government size in Korea were scaled down in the 1970s."[13]

These two cases illustrate the complementary effects of aid cutoffs and relatively open U.S. markets: if discontinuing aid is the stick to cause other governments to adopt pro-market policies, open U.S. markets are the carrot. South Korea and Taiwan were able to switch from government-oriented to market-oriented policies even in the face of modest U.S. import barriers. If such barriers were removed altogether, it would be easier for other governments to make the transition to market-oriented policies.

The ascendancy of pro-market thinking within the Reagan Administration has led to a new variation on the foreign aid theme: Rather than discontinuing foreign aid, let's make it conditional upon the recipient governments' movement toward more rational policies.

It would be difficult to imagine a policy more likely to create resentment against America and capitalism. Instead of having policy changes viewed as an accommodation to *reality*, this approach would encourage people in the recipient country to view the changes as an accommodation to *the wishes of the U.S. government*. Instead of creating the conditions that might allow a consensus for policy change to develop among local ruling elites, this approach seeks to impose the will of a strong nation on weak ones. Instead of having local rulers take the heat for necessary but unpopular changes, this approach allows such rulers to blame the Yankee imperialists.

Free trade would alter the selection process in Third World countries. The above discussion describes how cutting off U.S. aid and opening U.S. markets could create the conditions under which *existing* Third World ruling elites might change their policies. A more powerful but slower-acting effect would be to change the composition of such elites, to broaden them to include people with pro-market and pro-American views.

F. A. Hayek's *The Road to Serfdom* contains a wonderfully insightful chapter entitled "Why the Worst Get on Top."[14] According to Hayek, a socialist society, organized along military lines, will select in favor of a very different sort of person than a liberal society.

What sort of person rises to the top in a Third World society that receives U.S. economic or military aid, or that is the subject of a guerrilla war supported by the U.S. government? What sort of person would rise to the top in such a society if U.S. trade barriers were eliminated?

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How does the process of rising to the top affect the character and outlook of those who do? What sorts of moral compromises must they make with the powerful? What sorts of skills do they develop? Where do their vested interests lie? What is their vision of the proper society?

Most Third World countries are tightly controlled by small self-aggrandizing elites. Such oligarchies tend to shut off all routes of advancement for the vast majority of people. For those few to whom advancement is possible, the only route is to curry favor with the ruling elite. This particular means of advancement selects in favor of those who are more adept at amoral political maneuvering than at dealing with reality. It selects in favor of—and reinforces—a zero-sum view of reality in which one person's gain is another's loss. And it selects in favor of people with a strong vested interest in the maintenance of the same corrupt system through which they rose.

Foreign economic aid, going as it does directly to governments, helps entrench local ruling elites. It strengthens their comparative advantage versus other avenues of advancement. It gives them favors to dispense, helping local cronies at the expense of would-be independent businessmen. Foreign military aid has a similar effect, strengthening an unproductive and usually authoritarian military at the expense of the private sector.

The Reagan Administration's policy of aiding anti-communist rebels should also be analyzed from the standpoint of Hayek's insight on selection processes. As noted earlier, free trade and open immigration cannot be viewed as alternatives to U.S.-backed guerrilla warfare in countries like Afghanistan, Cambodia, Nicaragua and Angola. However, if Hayek is right, surrograte warfare is of little use in creating free societies (as opposed to merely pro-U.S. governments.)

By providing materiel and training for local guerrilla groups, the U.S. government opens up another avenue of advancement in the recipient society (assuming the guerrillas win). Even if such guerrilla groups begin with a liberal orientation, the selection process within a military organization strongly favors authoritarian personalities who have little personal contact with marketplace activities. If the guerrillas are fortunate enough to emerge victorious, the most likely result would be the replacement of one authoritarian regime by another.

By contrast, lowering U.S. trade barriers would tend to open another avenue of advancement in Third World countries. An open U.S. market would select in favor of competent businessmen, who in turn would select in favor of competent employees, suppliers, and so forth. Such people would tend to be oriented toward the real world of production and trade, rather than a life of political maneuvering. By engaging in wealth-creating activities, they would be more likely to adopt the positive-sum view of existence which provides a critical underpinning for a pro-market viewpoint. And finally, they would develop a vested interest in their particular means of advancement—the marketplace and ties with the United States.

To understand the power of U.S. markets to generate social change in Third World countries, one need only look at the burgeoning middle class demands for democracy and civil liberties in South Korea and Taiwan. Without export markets in the U.S., such middle classes probably would not have arisen.

Free trade would change attitudes in the Third World. The most enduring effect of eliminating U.S. trade barriers would be to change the attitudes prevalent in the Third World toward America and capitalism. Free trade and cutting off foreign aid would increase the economic well-being of people in the Third World (although aid cutoffs in the short term would have the opposite effect). But greater wealth by itself is no guarantee of pro-U.S. or pro-capitalist viewpoints; witness Sweden. Nor is the fact of *increasing* wealth necessarily a guarantor of such viewpoints; the "revolution of rising expectations" can just as easily generate demands for more governmental activity.

The critical determinant of attitudes is what people view as the *source* of their increasing well-being. For all of the reasons discussed above, opening U.S. markets would tend to cause Third Worlders to identify their increasing prosperity with America and with the market economy, rather than a government-dominated economy.

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No Time For Halfway Measures

If the ideas discussed in this article eventually find their way into American political culture, the most likely outcome would be a series of halfway measures which meet the political demands of established anti-import and anti-immigration interests (for example, observe how such groups have gutted even a modest program such as President Reagan's Caribbean Basin Initiative), and which allow our leaders the illusion that they can "target" the benefits of liberalization. One can easily envision some legislator proposing that countries be certified as recipients of a more liberal U.S. trade or immigration policy.

The answer to such targeting efforts should be: The world simply doesn't work that way. No government agency could predict how many emigrants to America or how many trade contacts with Americans a Third World country needs before its people can learn "enough" about the American system. No government agency could predict how much of a liberalization of U.S. trade or immigration policy is necessary to induce policy changes by any given Third World government. And no government agency could begin to predict free trade's long-term selection effects in a specific Third World country.

As recently as one decade ago, no one could have predicted the recent liberalization of economic policies in socialist India or communist China or the virtual destruction of Iran's state capitalism by an anti-capitalistic religious fundamentalism.

The effects of free trade and open immigration are likely to be unsatisfactorily slow and random for those accustomed to producing results in time for the next election. But slowly and inevitably, these twin liberalizations would tilt the world's playing field decisively in America's favor. □

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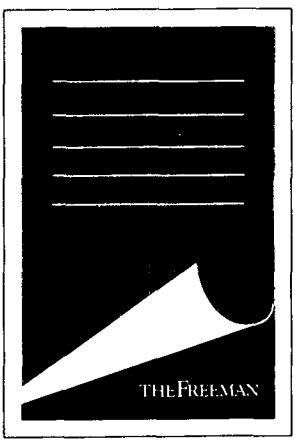

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A REVIEWER'S
NOTEBOOK

Cities and the Wealth of Nations

by John Chamberlain

Jane Jacobs, whose specialty is the death and life of cities, is not an economist. You won't find much in her books about such things as the gross national product of separate countries, or the effects of monetary decisions of the Federal Reserve on national standards of living. Her latest work, *Cities and the Wealth of Nations* (New York: Random House, 257 pp., $17.95), tells us that the classical economists were guilty of putting the cart before the horse in their discussions about the origins and enhancement of wealth. In her view cities create wealth quite independently from their national settings. It follows that economic wisdom must begin with an investigation of city cultures.

What Jacobs explores in this book is a process that takes off from individual wills and personal ingenuities. Boston and the Boston region offer a prime example of such a process in dynamic continuity. The city, with its ties to Salem and the North Shore, had been a creative metropolis since the days of the tea packets. Later, it put its money into railroads. But its citizens lost their drive as the local third and fourth generation rich limited their energies to coupon clipping. As the Boston economy stagnated, it lost its exports (shoes and textiles) and ceased to import. The popular explanation was that cheaper labor and lower taxation in Georgia and elsewhere in the American South had made New England an economic backwater for good.

This explanation seemed entirely too defeatist to Ralph Flanders, who later became a U.S. Senator from Vermont. In 1946 Flanders and a few of his moneyed friends formed a venture capital company to make four million dollars available to small Boston enterprises. The Flanders group had no preconceived ideas of what they were doing. They were quite surprised when the first applicants for capital were three young scientists who, using their relatives' savings, had started a high technology enterprise. The presence of universities such as Harvard, M.I.T., and Tufts guaranteed a willing personnel for the proliferation of high tech companies that followed, with the new enterprises moving out of Boston proper to take advantage of cheap rental space along the now fabled Route 128.

The Flanders group touched hands with the world of John Hancock. Looking back on Boston history, Jacobs says the creative city will begin by importing goods for processing and resale. But it will not stop there. To meet competition it will begin to duplicate the imported produces for itself. It will reach out to its own hinterland for manpower and for markets. State lines will mean little to it—the Boston region spills over into southern New Hampshire and into Maine.

What Jane Jacobs has a hard time explaining is why some city regions turn out to be Bostons and some do not. Tokyo, in Japan, has been a Pacific rim Boston, providing jobs for the sons

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of farmers from the surrounding countryside and selling products made from imported raw materials to the world. Scotland's Edinburgh, on the other hand, has done little to rejuvenate itself. The displaced highlanders who came into the city when their lands were cleared for raising sheep had to find housing in slum quarters. Many of them died from tuberculosis. The more energetic among them moved on to London or migrated to Ulster in northern Ireland or Nova Scotia in Canada. Some joined the British army, serving notably in the conquest of India.

Query: would the story of Edinburgh have been different if there had been a Scottish Ralph Flanders?

Jacobs leaves us with the task of trying to puzzle out what it takes to set a Flanders in motion. Obviously a city setting is needed. But it can't be just any city. The Lockheed Company built a factory in Marietta, Georgia. But it couldn't have started out in a Georgia town that lacked mechanics and toolmakers. Allen Loughhead, the founder of the company, designed his first plane in Los Angeles in the late Twenties. He had to scramble for hundreds of things to make the plane—tools, wiring, wheel parts, bearings, aluminum sheets, printing services. Not everything was available locally, but there were people who could provide the needed items when specifications were set before them. Imports came first, then the local duplication of imports. Finally, when the company had become relatively self-sufficient, it could afford to build a plant in Georgia.

Jane Jacobs' investigation of city-region patterns makes her doubt the use of providing regions with capital when they are far away from solvent city markets. She is particularly depressed by the example of the Volta Dam in Ghana. Volta, as one of the world's great hydroelectric projects, was supposed to supply adjacent factories with power. But Ghana had no Ralph Flanderses or Allen Loughheads. The people displaced by the dam were forced to farm soil so poor that they could not feed their families. There are, says Jacobs, quoting a UN food and agricultural specialist, some 40 dams around the world that are useless.

Jacobs has nothing good to say about the supposed science of macro-economics, which she defines as "the branch of learning entrusted with the theory and practice of fostering national and international economies." It is, she says, a shambles. The effort to act on macro-economic recommendations has tied up incomprehensibly huge resources in the World Bank, the International Monetary Fund, and the UN. What has resulted has been a tremendous waste and a real wreckage of hopes. The reality of stagflation, she says, has made nonsense of two centuries of elaborate theoretical thought.

Jacobs concluded that economic life develops by innovating. It expands by the process of import-replacing. It follows that the politicos should stop taking money out of the pockets of prospective innovators, who should be left to their micro-economic concerns in their various cities. The innovator can always use capital, but a little of it will go a long way. A good idea will generate its own support, much as production under Say's Law generates its own purchasing power.

Jane Jacobs ends her book with a crack at capital cities that are no more than that. Where they seem to boom, it is "in service to transactions of decline." "Behind its busyness at ruling," she says, "a capital city of a nation or an empire, vivacious to the last, at length reveals itself as being a surprisingly inert, backward, and pitiable place. So it was with Lisbon, Madrid, Istanbul. So it is gradually becoming, one suspects, with London, Paris, Stockholm . . ."

Since her last chapter is titled "Drift," Jane Jacobs ends with pessimism. "Even creative cities such as Boston," she says, "must depend on trade-offs from transactions of decline, at least in part. Boston . . . now depends partly on trade-offs from military production." What we need is "many, many cities in a trading network" not dependent on the military, and that is something we just don't have anymore. □

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